BCE Inc.

Annual Report 1987

BCE* is a management holding corporation whose subsidiaries and associated companies are major providers of telecommunications services; they are leaders in the manufacture and supply of telecommunications equipment, and in natural gas transportation and natural resource operations.

BCE, with its other subsidiaries and associated companies, also is a major provider of international telecommunications consulting services; of printing, packaging and publishing services; and is engaged in real estate development and other fields.

BCE has the largest number of registered shareholders of any Canadian corporation and its common shares are listed on stock exchanges in Canada, the United States, Japan and Europe.

** BCE is a trademark of BCE Inc.*

1988 Annual Meeting
The annual meeting of BCE shareholders will take place at 10 a.m., Tuesday, May 3, 1988, at the Montreal Convention Centre, 201 Viger Avenue West, Montreal, Quebec.

BCE Inc.
Executive Offices
2000 McGill College Avenue
Suite 2100
Montreal, Quebec H3A 3H7

Contents

Trademarks

The terms DIVA, LANSCAPE, CENTAUR and iNet are trademarks of Bell Canada.

The terms DMS, Meridian, SuperNode, DPN and SL are trademarks of Northern Telecom.

◀
One of the corporation's youngest shareholders accepted a memento from BCE chairman A. Jean de Grandpré at the reception following a presentation to the investment community in Osaka, Japan, last spring.

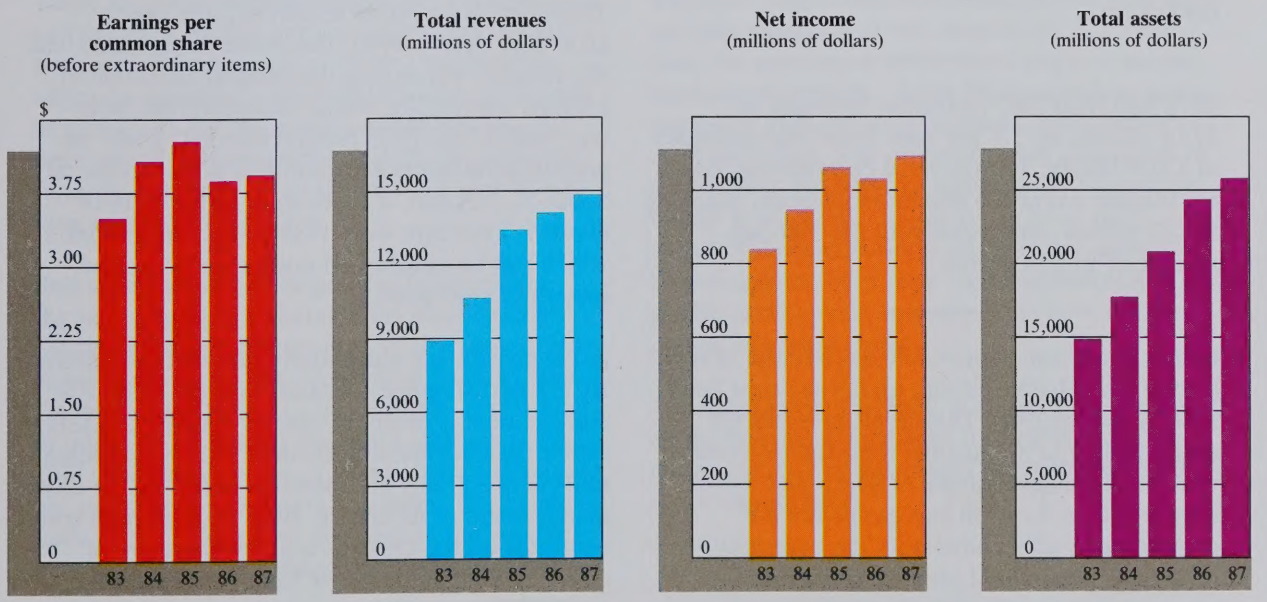
▼
BCE executives met with financial leaders in Zürich in October: (left to right) J. Stuart Spalding, executive vice-president, finance; A. Jean de Grandpré, chairman; Robert Studer, president of the executive board of Union Bank of Switzerland; J.V. Raymond Cyr, president.

The ability to raise money in the world's capital markets is one of BCE's most valuable assets. It is a result of strong financial management, consistent performance and regular meetings with the international financial community for discussion of economic conditions, operating activities and plans.

During 1987, senior executives of BCE visited a number of European and Japanese cities, as well as North American financial capitals, to meet with leaders in the finance and investment communities.

Financial Highlights

Canadian dollars	**1987**	1986	1985
	(in millions of dollars, except per share amounts)		
Earnings per common share	**$ 3.91**	$ 3.83	$ 4.23
Total revenues	**14,649**	13,932	13,257
Net income	**1,087**	1,024	1,051
Net income applicable to common shares	**1,054**	986	1,009
Return on common equity	**12.3%**	12.5%	15.0%
Total assets	**26,025**	23,714	20,583
Gross capital expenditures	**3,309**	2,769	2,427



To All Our Shareholders

A change of name is an event of enduring significance in the history of a corporation. The decision to change our name, at the close of 1987, was taken in recognition of what had already become widespread usage.

Almost from its inception as a holding corporation, five years ago, Bell Canada Enterprises was being referred to popularly as BCE. So, it was decided to adopt that form and, at the close of the year, the name was changed formally to BCE Inc. The change won almost immediate acceptance and recognition in the business world.

Other elements of change were present in virtually every facet of the corporation's activities in 1987. Shifting economic conditions and turbulence in financial markets characterized the general business environment during the year.

However, the BCE organization is structured to respond confidently and effectively to changing conditions; with the result that, despite difficulties experienced in some areas, substantial growth in others contributed to what, on balance, was a very successful year. Overall increases, in both consolidated earnings and assets, are testimony to BCE's success in meeting those challenges.

BCE had total 1987 operating revenues of $14.6 billion, up 5.1 per cent from 1986 revenues of $13.9 billion. For the third consecutive year, net income exceeded one billion dollars, reaching $1.087 billion, compared with the 1986 net income of $1.024 billion.

BCE's net income applicable to common shares in 1987 was $1,054 million, up 6.9 per cent from $986 million in 1986. This result reverses the slight decline in net income reported last year, which was a consequence of depressed world energy prices. Low oil and gas prices are continuing to affect adversely the contribution of TransCanada PipeLines Limited to BCE's earnings, but an offsetting factor is growth in the contribution from other sources.

The average number of BCE common shares outstanding in 1987 rose, by 4.6 per cent, to 269.4 million shares. Earnings per common share for the year were $3.91, compared with $3.83 in 1986. These figures take into account the deduction of preferred dividend requirements equivalent to $0.12 per common share, compared with $0.14 in 1986. The increased number of shares makes the BCE earnings improvement appear modest in per share terms, but it actually represents a rebound from the previous year's results.

BCE's total assets now stand at $26 billion, compared with $23.7 billion at year-end 1986. The growth in assets reflects a number of important acquisitions made during the year which further consolidate the positions of BCE's major operating units as international leaders in their respective industries.

At the same time, some operations which do not fit into BCE's long-range growth plans have been, or are being, divested. An example was the sale of the European computer maintenance companies. Other assets also may be disposed of, if appropriate.

There are two notable features to the year's growth in assets. First, the acquisitions made had the effect of expanding the geographic scope of existing operations, rather than entering industries new to the BCE family. Second, while the growth involved is substantial in dollar terms, at about $2.3 billion, it represents an increase of about 9.7 per cent over 1986 assets, an amount which can be considered normal for a healthy industrial enterprise.

Asset growth is a particularly relevant measure of BCE's performance, because the role of BCE's management is primarily one of managing assets, rather than businesses. Each of BCE's operating units is essentially autonomous in the day-to-day management of its affairs. BCE management concentrates on the creation and development of effective configurations of units, with steadily expanding competitive capabilities.

J.V. Raymond Cyr, president, and A. Jean de Grandpré, chairman, both addressed the World Telecommunication Forum held in conjunction with Telecom 87 in Geneva in October. They also participated in activities at the Bell Canada International exhibit.

There are five essential ways asset management can enhance BCE's performance. One is acquisition, which brings new units into the family, either to strengthen existing business or to open new markets for the group. Another is divestiture, which removes units that do not meet performance objectives, or which no longer fit into long-term strategic plans.

Still another asset-management technique is the re-grouping of existing units to create new entities with capabilities greater than any of the constituent parts. The creation of BCE Mobile Communications Inc. is an example of this kind of initiative. A similar but more entrepreneurial kind of initiative is the creation, from the ground up, of entirely new operating units. The establishment of iNet Company of America during the past year is an example of this process at work.

The final step in the asset-management process is one just emerging at this stage in BCE's evolution: the opening up of business units to public equity participation. Some BCE operating units represent substantial investment opportunities in their own right. For investors with an interest in a particular industry, an opportunity to acquire equity in a specific company, such as BCE Mobile Communications, can be very attractive. In due course, BCE may create opportunities for public participation in some of its now wholly owned operating units.

The management of BCE is committed to using all the options available to it to pursue the ultimate objective of increasing the company's value to its shareholders.

Change, even when it represents valuable progress, is always difficult to manage. It generates inevitable uncertainties, poses new and complex problems, increases workloads and requires sometimes painful adjustments.

An ability to cope with the demands of an ever-changing business environment is one of the greatest strengths of BCE, and a vital ingredient in its continuing success.

As we further expand our worldwide activities, particularly in high-technology industries, we will continue to rely on the resourcefulness and adaptability of the management and staff of all companies in the BCE family. Sincere thanks are due to the 117,000 employees who contributed in so many ways to our success during the past year.

Once again, Bell Canada was the largest contributor to BCE's earnings for the year. Revenue increases in both local service and long distance operations, together with continuing improvements in productivity, led to substantial growth in net income.

Bell Canada's productivity improvements are, in large measure, the result of extensive internal programs designed to enhance all aspects of the company's operations. These initiatives, which strongly emphasize teamwork among employees, ensure that the primary objective of all Bell Canada's activities remains customer satisfaction.

A major accomplishment for Bell Canada during the year was the consolidation into a single division, Bell Information Systems, of the activities of some 5,000 employees serving over 35,000 business customers.

The other telephone service companies in the BCE family, including Bruncor Inc.; Maritime Telegraph and Telephone Company, Limited; NewTel Enterprises Limited; Northern Telephone Limited; and Télébec Ltée, recorded satisfactory results for 1987.

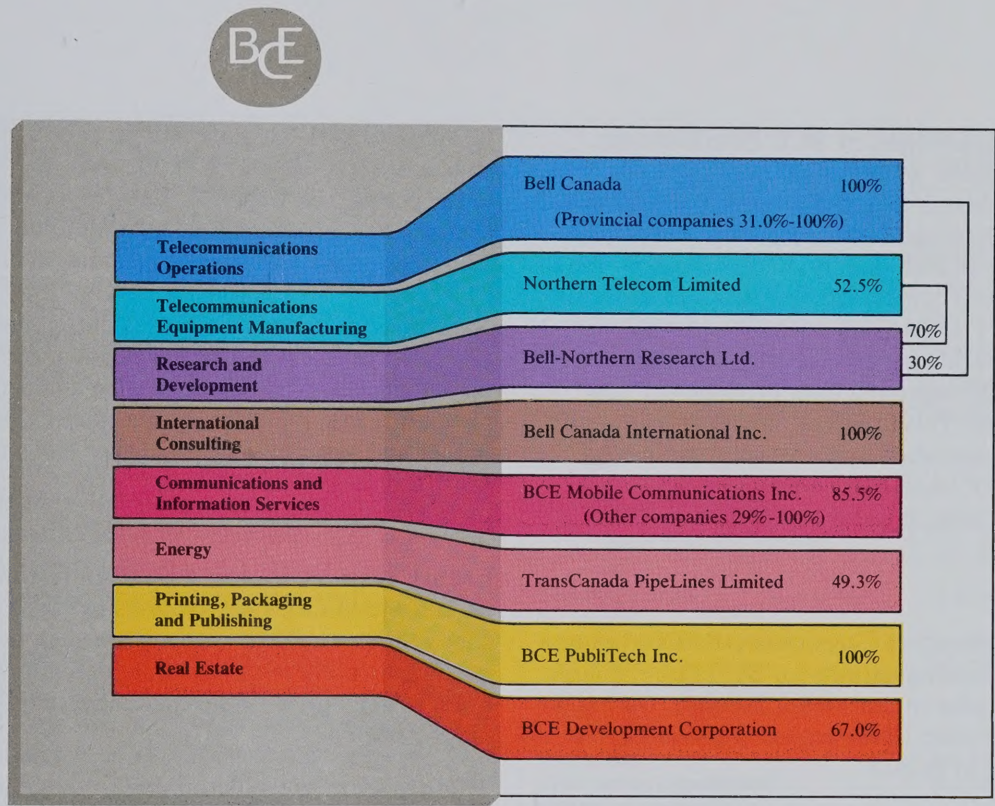
Northern Telecom Limited (NTL), the second-largest contributor to BCE's earnings, enjoyed another excellent year. Strong demand for central office switching systems in both Canadian and U.S. markets produced record sales in North America, while sales in other international markets were not far behind last year's record levels. Substantial improvements in productivity increased profit margins on NTL's industry-leading DMS switch products, which are the main constituents of many large contract sales.

A major new addition to NTL's international operations was made with the acquisition of a significant interest in STC PLC. STC is Britain's second-largest electronics firm. This company will assist NTL in the development of advanced telecommunications equipment and software for British and other European markets.

NTL's world leadership in digital telecommunications technology has been the key to its growth in recent years, and the company is moving to extend that leadership in the years to come.

The source for many of the technical advances is another BCE unit, Bell-Northern Research Ltd. (BNR). Through the largest privately funded research program in Canada, BNR is creating the core elements of the telecommunications systems of the future. The results of these efforts will ensure that BNR's parent companies, NTL and Bell Canada, will continue to set world standards of quality and efficiency for many years to come in the production and delivery of telecommunications equipment and services.

Bell Canada International Inc.'s long-standing relationship with the government of Saudi Arabia is continuing through a one-year extension of a contract covering the transfer of technological expertise to Saudi nationals. An extension also is being negotiated on a contract in Malaysia during 1988.



During the year, various ancillary telecommunications and technical service companies were grouped together, and their activities focussed, under the direction of a senior executive of BCE. Activities of these companies, which include BCE's investment in Memotec Data Inc., are described in a separate section (communications and information services) in this annual report.

The investment in Memotec is particularly important; a major subsidiary of this company is Teleglobe Canada Inc., Canada's sole provider of overseas telecommunications services. Excellent results from Teleglobe's operations in 1987 produced an immediate, and greater than expected, return on the Memotec investment.

In October, several BCE companies participated in Telecom 87, the world telecommunications exhibition held in Geneva every four years under the sponsorship of the International Telecommunication Union. Northern Telecom and Bell Canada International were among the exhibitors, while several speakers from BCE, Northern Telecom, Bell Canada and Bell-Northern Research participated in the World Telecommunication Forum, held in conjunction with the exhibit.

TransCanada PipeLines Limited (TCPL) endured another year of depressed prices for fossil fuels, which constrained its contribution to BCE's earnings. However, long-term prospects for TCPL's growth were greatly improved by the acquisition of Encor Energy Corporation Inc. The addition of Encor's assets virtually doubles TCPL's oil and gas reserves, and puts the company in a position to rapidly expand production when world energy prices improve.

Another acquisition, by BCE PubliTech Inc. (BCEP), added an important new link to its coast-to-coast network of printing plants. Matthews Ingham and Lake, located in Toronto, specializes in high-quality, multi-colour printing for corporate clients. Other operations of BCEP in directory advertising sales, commercial printing, packaging and security printing have significantly improved their productivity and profitability. This progress, the result of extensive re-organization and restructuring, has given BCEP important competitive advantages in serving large national and multinational customers.

BCE Development Corporation (BCED) has now received building permits for BCE Place, a large office complex in downtown Toronto. During the year, ownership of the project was transferred from BCE to BCED.

BCED made substantial progress in leasing completed office towers in Chicago, Phoenix, St. Paul and Vancouver. Development work is proceeding on commercial, residential and hotel projects in various other North American locations. These projects have shifted the balance of the company's portfolio strongly towards revenue properties, which should have a positive impact on long-term earnings.

We wish to make particular mention of four highly valued members of the board of directors, Messrs. H. Clifford Hatch, Paul H. Leman, John H. Moore and Gérard Plourde. They have provided valuable counsel during the period which has seen our companies grow to become world-scale competitors.

Their combined records of service on the boards of BCE, Bell Canada and Northern Telecom total a remarkable 116 years. They have now reached the age limit for service and will be leaving the board coincident with the 1988 annual meeting. Their successors will be elected at that meeting, in Montreal, on May 3, 1988.

In January 1987, Gerald J. Maier, president and chief executive officer of TCPL, was appointed to the board; and Ralph M. Barford, president of Valleydene Corporation, of Toronto, was elected a director at the 1987 annual meeting, in Halifax.

Executive management changes during the year saw the retirement of Gordon E. Inns, executive vice-president, planning, following a telecommunications career of 39 years. On May 1, Jean C. Monty was appointed an executive vice-president of BCE, succeeding Mr. Inns.

Change has now become a constant feature of BCE's operations. Our positions in major industries and international markets are such that we must continually respond, adapt and innovate in order to keep up with the challenges and opportunities before us.

Given the record of accomplishments we have already established in many fields and markets around the world, we are confident that the future will bring continued success to the employees and shareholders of BCE Inc.

A. Jean de Grandpré
Chairman and chief executive officer

J. V. R. Cyr

J.V. Raymond Cyr
President

February 24, 1988

Telecommunications Operations

Bell Canada

The largest member of BCE's corporate family, Bell Canada has more than 53,000 employees, revenues of $6.4 billion and assets exceeding $13 billion.

Bell Canada's annual payroll of almost $2 billion, together with another $4 billion in annual capital expenditures and outlays for supplies and services, makes it a major force in the Canadian economy.

Wholly owned by BCE, the company provides basic telephone service, as well as advanced voice, data and image transmission services, to nearly seven million customers in Quebec, Ontario and the eastern Canadian Arctic.

The year 1987 was one of continuing growth for Bell Canada, with revenues up in both local service and long distance operations. Net income for the year was $731 million, compared with $711.2 million in 1986, which included an extraordinary gain of $27.3 million. Return on average common equity for 1987 was 13.2 per cent, compared with 13.5 per cent (before extraordinary item) in 1986.

Growth in Revenues

Local service revenues increased by 4.6 per cent, chiefly as a result of the increase in network access services (which approximates lines in service). The number of network access services, in residential and business markets combined, was 4.8 per cent higher at the end of 1987 than at the end of 1986.

The number of long distance calls originating in Bell Canada's territory increased a dramatic 15.9 per cent and totalled 1.2 billion for the year. Long distance activity was stimulated by the continuing strength of the economic climate and, to a lesser extent, increases in demand resulting from rate reductions. As a result of these rate reductions, long distance revenues did not grow in proportion to the increase in messages, and showed a 1.1 per cent gain.

Capital Spending

To provide service which meets the complex and varied communications needs of subscribers in some five million square kilometres of territory, demands substantial investment.

Gross capital expenditures during the year totalled nearly $2 billion, and plans call for expenditures of another $2.15 billion in 1988.

Bell Canada's external financing requirements grew to over $1 billion during 1987, and both domestic and international money markets were used to raise the necessary funds. Details of Bell Canada's 1987 financing may be found on page 28 in the financial review section of this annual report.

Bell Canada Highlights

dollar figures in millions	1987	1986
Operating revenues	**$ 6,377.5**	$ 6,254.6
Net income		
before extraordinary item	**$ 731.0**	$ 683.9
after extraordinary item	**$ 731.0**	$ 711.2
Return on average common equity		
before extraordinary item	**13.2%**	13.5%
after extraordinary item	**13.2%**	14.1%
Total assets	**$13,507.5**	$12,693.2
Gross capital expenditures	**$ 1,991.3**	$ 1,647.8
Number of employees	**53,735**	51,370
Network access services (thousands)	**7,761.1**	7,403.9
Long distance messages (millions)	**1,192.0**	1,028.4

Teamwork and Quality

Internal programs to promote change and enhance quality in all aspects of Bell Canada's operations are continuing to have salutary effects on productivity and customer satisfaction. Strong emphasis on teamwork is a central feature of these programs.

One measure of the success of these efforts was the swift and effective response the company provided when confronted with two service crises during the summer: a flash flood which struck Montreal, and the destruction of a microwave tower in Ontario. In both cases, service to customers was restored quickly by skilled and dedicated teams of Bell Canada employees.

A basic underlying feature of these improvement programs is the concept of service as defined by the customer. Adopting the customer's definition of quality ensures that corporate actions and initiatives result in tangible customer benefits.

Restructuring

During the year, a new division called Bell Information Systems, or BIS, (created late in 1986) became operational. BIS services the information management needs of medium and large-sized business customers.

Bell Canada provides basic telephone service its seven million customers know they can rely on.

At the same time, the advanced capabilities future telecommunications will demand are developed through projects such as a comprehensive ISDN trial in Ottawa.

BIS integrates the operations of the former Bell Communications Systems Inc. and those of a former Bell Canada division, the Business Communications Group. A third unit, the National Systems Group of Bell Canada, was merged into BIS in May 1987. The new structure now consolidates the activities of some 5,000 employees serving over 35,000 business customers representing approximately 40 per cent of total Bell Canada revenues.

New Products and Services

The integrated services digital network (ISDN), a concept first presented in the early 1970s and standardized in 1984, is continuing to make progress towards the goal of combining full integrated voice, data, text and image transmissions over a single, digital network.

It is estimated that during the decade of the 90s, fully half the telephones in the developed world will become ISDN-compatible, and that virtually all business mail will travel from computer to computer via ISDN telephone lines.

Bell Canada is conducting a comprehensive ISDN trial which involves three departments of the federal government of Canada: Communications, National Defence and Regional Industrial Expansion. The company also is working with equipment manufacturers, vendors and business customers to encourage the development of appropriate new ISDN-compatible equipment.

During 1987, Bell Canada also introduced several new products to the growing market for integrated office systems. DIVA, LANSCAPE and CENTAUR provide small and medium-sized businesses, as well as corporate departments, with effective information sharing networks using existing information processing equipment.

Bell Canada also announced ALEX, an electronic interactive information and transaction videotex service. ALEX, which will undergo a major market trial during 1988, uses a new Canadian-designed terminal, which plugs into an ordinary home phone jack. It provides customer access to a variety of consumer services, such as electronic shopping and banking.

Rate Rebalancing

Early in the year, Bell Canada filed an application with the Canadian Radio-television and Telecommunications Commission (CRTC) to rebalance local and long distance rates. At present, local service rates are set substantially below the cost of providing those services, while long distance rates exceed costs. Gradually adjusting these rates would result in a more equitable distribution of costs.

The CRTC held a public hearing to examine this application, as well as the company's revenue requirements for 1988, during the autumn of 1987. A decision is expected in the first part of 1988.

Federal Court of Appeal Upholds Bell Appeal
In July 1987, on appeal by Bell Canada, the Federal Court of Appeal overturned a CRTC decision of October 1986, which had ordered a one-time credit of $206 million to Bell Canada customers. The Appeal Court ruled that the CRTC had exceeded its jurisdiction in issuing the order.

In December 1987, the CRTC was granted leave to appeal to the Supreme Court of Canada.

Other Telecommunications Interests

At December 31, 1987, other direct telecommunications subsidiaries of BCE were Télébec Ltée (100 per cent); Northern Telephone Limited (99.8 per cent); and NewTel Enterprises Limited (54.9 per cent), the parent corporation of Newfoundland Telephone Company Limited.

BCE also has minority holdings in Maritime Telegraph and Telephone Company, Limited (32.5 per cent) and Bruncor Inc. (31.0 per cent), the parent corporation of The New Brunswick Telephone Company, Limited.

Together, these companies contributed $46 million to BCE's earnings in 1987, an increase of 10 per cent from 1986.

Northern Telecom Limited

BCE owns a controlling interest (52.5 per cent of equity) in Northern Telecom Limited, the leading manufacturer of fully digital telecommunications systems in the world. Northern Telecom's great strengths in product development and worldwide marketing directly complement BCE's other interests in the telecommunications field.

▶ Northern Telecom is using its success in North American markets to extend its market presence internationally.

◀ The first shipment of DMS-10 switching equipment to Nippon Telegraph and Telephone in Japan was made in 1987.

Strong demand and substantial improvements in productivity combined to produce excellent results in 1987 for Northern Telecom. Revenues for the year totalled U.S. $4.8 billion, an increase of 11 per cent over 1986. U.S. operations accounted for 62 per cent of total revenues.

Northern Telecom's net earnings applicable to common shares for the year were U.S. $329 million, an increase of 15 per cent over U.S. $287 million in 1986. The increase is largely due to improved profit margins on sales of the company's market-leading central office switching systems.

Revenues rose in all geographic areas despite declines in prices and exceeded 1986 levels by 24 per cent in Canada and five per cent in the United States. Revenues from other international operations increased by eight per cent from record levels in 1986.

Investment in R&D
Investment in research and development has also increased, as the company continues its pioneering efforts in the creation and elaboration of telecommunications technology. Expenditures for the year totalled U.S. $588 million, a record 12 per cent of revenues.

Most of these funds are devoted to programs carried out through BNR, which operates some of the largest and most sophisticated telecommunications research facilities in the world. A report on BNR's activities appears on page 15 of this annual report.

Growth in Switching Equipment Sales
Sales to Northern Telecom's largest customer in Canada, Bell Canada, increased, particularly in the field of central office switching systems.

Similar demand for central office switching systems is fueling strong sales growth in the United States, where Northern Telecom is expanding its position as a leader in both technology and service.

ISDN Leadership
Northern Telecom has been involved in several important tests and demonstrations of ISDN technology. The company is playing a leading role in introducing ISDN systems and features to the U.S. and Canadian business markets.

(Northern Telecom reports its results in U.S. dollars, and the data in this section also are expressed in U.S. dollars. However, the consolidated data in the Financial Review and the Financial Statements sections of this report are expressed in Canadian dollars.)

The most comprehensive ISDN trial to date was co-managed by Northern Telecom and U S WEST, a regional telecommunications operating company in the United States. This trial, in Phoenix, Arizona, demonstrated a number of different government, banking and manufacturing applications involving personal computers and voice terminals from various manufacturers.

The ISDN capabilities of Northern Telecom's DMS-100 switch were also showcased at the Pan American Games in Indianapolis at mid-year, both in Indiana Bell's official Games communications services and in a demonstration staged by Ameritech, the Games' official communications company. The Ameritech demonstration included voice, data and colour graphics transmissions interworking computers from three different manufacturers.

International Markets
In the international domain, Northern Telecom continued to enlarge its already substantial presence in important markets around the globe.

The first shipment to Japan of DMS-10 equipment under a seven-year, U.S. $250 million contract

with Nippon Telegraph and Telephone Corporation (NTT) was made early in the year. Northern Telecom is the first non-Japanese supplier of equipment to NTT. More than 700 DMS-10s will be delivered by 1993.

DMS equipment is also the main constituent of a U.S. $350 million equipment contract obtained from the Turkish Post, Telegraph and Telephone administration.

European Presence Strengthened
Northern Telecom strengthened its European presence through two major developments. In the first of these, Northern Telecom acquired some 27.5 per cent of STC, Britain's second largest electronics firm, at a cost of U.S. $833 million. The acquisition is expected to result in a stronger presence for Northern Telecom in the U.K. and European markets. In addition, STC has purchased the telecommunications and data systems businesses of Northern Telecom's U.K. subsidiary, and certain European data systems operations.

The second major development was an agreement with Compagnie Générale d'Industrie et de Participations and Banque Worms to establish manufacturing and research and development facilities in France. NT Communications will become a European centre of excellence for Northern Telecom's Meridian line of advanced business communication products.

Early in 1988, the company announced the establishment of Northern Telecom World Trade, a new organization created to bring a sharper focus to global growth opportunities. The organization will comprise Northern Telecom Europe Limited; NT Communications of France; and Northern Telecom Pacific Limited.

DMS SuperNode
The key element in Northern Telecom's continuing growth is the DMS SuperNode, an evolutionary outgrowth of the DMS family of products. With twice the processing power of previous systems (enough to handle 1.5 million busy-hour call attempts), DMS SuperNode gives the company a clear lead over its competitors in the upper end of the market. Further enhancements will boost the DMS SuperNode's capacity fivefold by 1990.

Open architecture also gives the DMS system unprecedented flexibility and adaptability. It allows modular, incremental increases in computing power as needs grow, and it can run both the company's software and the user's own programs.

Meridian Customer Defined Networking
Another important development is Meridian Customer Defined Networking, which supplies corporate customers with new capabilities, greater power and enhanced control over their telecommunications networks. Customers can alter network configuration in response to changing requirements, and select whichever telecommunications carrier they prefer for all-digital transmission of voice and data. Meridian SuperNode enables the Meridian SL-100 to handle the diverse requirements of very large users.

Packet Switching Systems
DPN data packet network equipment will be used in the Federal Republic of Germany's new national air traffic control communications network. The first private packet switching network to be supplied by Televerket, the Swedish PTT, also uses DPN equipment. Northern Telecom has introduced a new member of the packet switching family, the DPN-100, that is ten times more powerful than any other packet switch currently installed.

Research and Development

Bell-Northern Research Ltd.

Along with Bell Canada and Northern Telecom, the third pillar supporting BCE's position in telecommunications is Bell-Northern Research Ltd., the largest private industrial research and development organization in Canada. BNR is 30 per cent owned by Bell Canada, and 70 per cent owned by Northern Telecom. In its total operations, BNR has more than 6,000 employees, many of them with very advanced academic qualifications.

A BNR scientist operates an ion implanter, used in the production of the next generation of integrated circuits. These chips, fabricated in gallium arsenide, will enhance the performance of Northern Telecom products.

An international network of nine research laboratories gives BNR decisive insight into customer expectations, and helps BNR focus its activities directly on client needs and shorten the timespan for product development.

A total of $643.1 million was invested in BNR research and development programs in 1987, up 22.9 per cent from the 1986 total investment of $523.3 million.

Integrated Services Digital Network
BNR's research activities for the integrated services digital network (ISDN) program are helping to revolutionize telecommunications. As part of this thrust, BNR played a major role in the development of applications for Bell Canada's ISDN field trials. One such innovative application was a BNR-developed personal computer software package which, for the first time, enables a telephone and personal computer — although physically separate — to function on demand as a single, integrated voice/data station.

Another of BNR's most notable technological achievements in this area was announced in June 1987, when tests were completed on a fully operational transceiver designed by BNR to meet ISDN transmission standards.

DMS SuperNode
It was BNR which developed the technology employed in a major advance in digital communications, a product called DMS SuperNode. Developed for Northern Telecom, it incorporates a new switching system architecture that dramatically increases the power and functionality of public telephone networks.

New Facilities
In September 1987, BNR officially opened a new 72,000-square-foot research complex in Maidenhead, in the United Kingdom. Known as BNR Park, this facility doubles the space available for BNR's designers and engineers to provide research and development support for Northern Telecom's operations in the U.K., Europe, the Near East and Africa.

Research staff at Maidenhead played an integral role in assisting Northern Telecom to develop and deliver, to Mercury Communications Limited, Europe's first telephone exchange with digital centrex features.

International Consulting

Bell Canada International Inc.

Even though Bell Canada International Inc. (BCI) faced increased competition and cost pressures in 1987, it was successful in obtaining new contracts that confirmed its status as one of the world's leading providers of telecommunications consulting services.

BCI's exhibit attracted current and potential clients from around the world at Telecom 87 in Geneva, where the leading players in telecommunications gathered under the auspices of the International Telecommunication Union.

Middle East
BCI signed a one-year contract continuing its advisory role in the transfer of management and operational expertise to Saudi nationals. The contract reflects planned reductions in the numbers of Canadians working in the Kingdom, and extends BCI's long-standing association with Saudi Arabia to 11 years. During 1988, BCI will be among international companies submitting tenders for a further three years in the same advisory role.

Other projects in Saudi Arabia include a major operations and maintenance contract for the Kingdom's 15,000-kilometre microwave network.

Other projects in the Middle East and Gulf countries included a contract to provide digital exchanges for hospitals in Iraq. The company is continuing to provide directory publishing support in the United Arab Emirates and Saudi Arabia.

United States
BCI Incorporated, of McLean, Virginia, registered its fourth year of sustained growth in the dynamic American market.

BCI Incorporated provided engineering expertise to US Sprint, a major long distance carrier, in the deployment of its nationwide fiber optic network. It also completed a project for AmSouth Bank, of Birmingham, Alabama.

BCI Incorporated continues to provide various Bell operating companies, interexchange carriers and large private network users with support and training for Northern Telecom's DMS and SL-100 switches.

Africa
Through a joint venture with Douserv, a Montreal-based consulting company, BCI is providing operation and maintenance assistance on a 3,000-kilometre microwave network linking the African countries of Benin, Mali, Burkina Faso, Senegal and Niger.

Pacific / Asia
Nepal became a new Asian client of BCI in 1987 with the signing of a contract for management consulting services. BCI also signed a licensing agreement with Telecom Australia for the transfer of expertise in value-added services, including iNet.

A major project completed in Malaysia involved the development and installation of a customer automated services system (CASS). BCI is pursuing a contract which would extend the CASS project throughout Malaysia.

BCE's newer communications and information services interests include international telecommunications services; cellular telecommunications, paging and fleet radio systems and services; computer equipment distribution; independent computer equipment maintenance; and information gateway services.

Bell Cellular's telecommunications service is an essential business tool for many professions and industries, and part of the mobile office of the future.

Memotec Data Inc.
In May of 1987, through a private placement, BCE acquired an approximate one-third interest in Memotec Data Inc. of Montreal, an international network provider and system integration company. Memotec's largest subsidiary, Teleglobe Canada Inc., is wholly owned and is Canada's sole provider of overseas telecommunications services.

At year-end, BCE's holding had decreased to 29 per cent, on a fully diluted basis, and the corporation had announced its intention to purchase additional Memotec shares. BCE intends to maintain a significant equity interest in Memotec, while continuing to comply with guidelines established by the Canadian government when Teleglobe Canada was privatized.

BCE Mobile Communications Inc.
A new company, BCE Mobile Communications Inc., was formed late in 1987 to hold the mobile telecommunications interests of BCE. At December 31, following a successful public exchange offer for shares of National Pagette Ltd., BCE held 85.5 per cent of BCE Mobile Communications which, in turn, held 100 per cent interests in Bell Cellular Inc., National Pagette and National Mobile Radio Communications Inc.

iNet Company of America
A new U.S. company, iNet Company of America, will market iNet 2000 technology, which was developed and introduced in Canada by Bell Canada and Bell-Northern Research. iNet's network-based information management service provides users with electronic messaging, data conferencing, on-line notice boards and access to databases. Two American companies, Ameritech and Telenet Communications Corporation, have options to participate in this project through a joint venture.

Computer Equipment Distribution and Maintenance
At year-end, BCE held a 47.4 per cent equity interest in Computer Innovations Distribution Inc., which owns the ComputerLand franchise for Canada.

Another wholly owned subsidiary, Bell Technical Services Inc., is Canada's leading independent computer maintenance company. It has 550 employees at 36 locations across the country.

Other Activities
BCE's European companies engaged in computer maintenance, product distribution and customized data applications were sold to Bell Atlantic Corporation of Philadelphia. The sale included companies in Austria, France, Germany, Italy, Switzerland and the United Kingdom.

Energy

TransCanada PipeLines Limited

BCE's investment in the energy sector takes the form of a 49.3 per cent holding in TransCanada PipeLines Limited, a diversified energy company with assets in excess of $6 billion. TCPL owns and operates a 4,400-kilometre natural gas pipeline stretching from Alberta to Quebec, and has investments in various other pipelines in Canada and the United States.

◀ Transporting natural gas safely and efficiently remains a major component of TCPL's diversified energy activities.

▶ At the same time, Canadian and international exploration and development programs, in locations such as New Zealand, will mean substantially increased oil and gas production in the future.

Wholly owned TCPL subsidiaries in Canada and the U.S. market oil and natural gas and carry on oil and gas exploration and development programs in both countries. TCPL also has oil and gas interests in Indonesia, Australia, New Zealand, Italy and the United Kingdom.

Encor Energy Corporation Inc.
Late in the year, TCPL acquired approximately 97 per cent of the common equity of Encor Energy Corporation Inc. at a total cost of about $1.1 billion. TCPL expects to complete the amalgamation of Encor's oil and gas interests, most of which are in Canada, with its own in the first half of 1988.

TCPL's objective in the acquisition is to build a strong, Canadian-based international oil and gas company, controlling all aspects of its business.

The acquisition significantly increases TCPL's oil and gas reserves, and puts the company in a good position to increase production substantially in the years ahead.

Earnings
TCPL's earnings continued to be depressed in 1987, primarily due to continued softness in oil and natural gas prices, unrealized foreign exchange losses, and a National Energy Board decision which established a lower permissible rate of return. Lower earnings per share reflect these factors, as well as an increase in the number of common shares outstanding following an issue in July 1986.

Net income applicable to common shares for 1987 was $121 million, compared with restated 1986 net income of $124 million (before investment and asset provisions of $115 million). TCPL's contribution to BCE's 1987 earnings was $41 million, up from the 1986 contribution of $31 million.

Results from the pipeline segment approximated 1986 levels. Operating income from oil and gas operations was $27 million, an increase of $16 million compared with 1986. The positive effects of reduced expenses, higher volumes and higher average oil prices were partially offset by lower natural gas prices.

Financial charges for the year of $379 million were comparable with those in 1986. The favourable effect of reduced interest costs, resulting from the repayment of loans, was mitigated by an increase both in short-term borrowing and in amortization charges related to unrealized foreign exchange losses.

Operations
Total pipeline deliveries for 1987 were 32,633 million cubic metres, compared with 1986 deliveries of 33,085 million cubic metres.

Domestic deliveries were 27,028 million cubic metres, one per cent lower than 1986 volumes. Export deliveries were 5,605 million cubic metres, compared with 5,745 million cubic metres a year earlier.

Lower consumption in Canada, caused by warm weather, offset the stimulative effect of reduced gas prices resulting from partial deregulation in Canada. The decline in exports was due mainly to the reliance of U.S. purchasers on domestic spot gas, as well as to regulatory protectionism in the U.S.

Other Activities

On the international front, plans are going forward to delineate offshore petroleum properties in which TCPL holds interests in New Zealand, and to develop prior discoveries in the Malacca Strait area of Indonesia.

Printing, Packaging and Publishing

BCE PubliTech Inc.

BCE's interests in the fields of printing, packaging and publishing are consolidated in BCE PubliTech Inc. By grouping related companies together, BCEP is able to gain operating advantages which give it a unique marketing position throughout North America.

BCE PubliTech companies serve the commercial printing needs of major clients such as Time magazine; and

the secure printing needs for MasterCard divisions of leading financial institutions.

For the past few years, BCEP has been engaged in complex restructuring activities: acquiring, merging and rationalizing both facilities and management organizations. Many of these programs have been completed, and the company is beginning to realize the benefits of new levels of efficiency and new competitive capabilities.

BCEP's total revenues for 1987 were $774.2 million, up 11.7 per cent from 1986 total revenues of $692.9 million. Net income increased 11.3 per cent to $26.4 million.

The operations of BCEP are conducted through three business groups, each of which contains units with independent market identities.

Directory
The directory group continued to lead the company in overall performance. Wholly owned subsidiaries National Telephone Directory Corporation and Penn-Del Directory Corporation act as agents for several Bell operating companies in the U.S. and handle Yellow Pages advertising sales for some 150 directories in the extremely competitive New Jersey, Pennsylvania and Delaware markets.

A subsidiary, Tele-Direct (Services) Inc., also provides services to directory publishers in Canada, and an Australian affiliate has directory sales contracts in the Sydney metropolitan area, in Fiji and in Papua-New Guinea.

Printing and Packaging
In the printing field, Ronalds Printing has already gained new status in the industry as a truly national printer, with facilities from Saint John, New Brunswick, to Vancouver. During 1987, the operations of The Case-Hoyt Corporation, BCEP's large high-quality printing operation based in Rochester, New York, were integrated into Ronalds' management structure.

A further element in BCEP's continent-wide printing network is North American Directory Corporation. BCEP holds a 50 per cent interest in the Massachusetts-based directory printing operation.

Early in 1988, BCEP acquired a 60 per cent interest in Matthews Ingham and Lake, one of Toronto's foremost high-quality offset printers. BCEP expects to acquire the remaining 40 per cent of the company over the next few years. The company employs approximately 200 people in the production of annual reports, graphics magazines and similar documents.

Rolph-Clark-Stone Packaging Corporation has facilities on both sides of the Canada–U.S. border which provide efficient, technically advanced printing, embossing, foil stamping and die cutting capabilities for the high-quality folding carton market.

Security Printing
The core company of BCEP's security printing group, British American Bank Note Inc., comprises two divisions: B A Banknote and British American Banknote Technologies. Marketing efforts for secure printing products are becoming increasingly international in scope and products from this group's units are shipped to nearly 100 countries around the world.

B A Banknote designs and produces bank notes for the Canadian government and for several foreign governments. It also produces personal cheques and credit cards for many major banks, travellers' cheques for leading financial organizations such as Visa, Thomas Cook and MasterCard, stock and bond certificates, postage stamps, and passports.

British American Banknote Technologies produces lottery tickets of various kinds at its computer-controlled production facilities in Canada and the United States. The company has been a supplier to Loto-Québec since 1970, when the Quebec government launched Canada's first lottery. During 1987, with a contract in Kansas, it became only the second company involved in the start-up of a state lottery.

The current trend in lotteries is towards on-line terminal systems, which allow customers to choose their own numbers directly. With the assistance of another BCE company, Bell-Northern Research, British American Banknote Technologies has developed a specialized, interactive computer terminal to address this intensely competitive international market.

Real Estate

BCE Development Corporation

◀ The 35-storey Quaker Tower in Chicago is headquarters for the Quaker Oats Company and recently received World Trade Center designation.

▶ Site preparation for construction of BCE Place is underway in the heart of Toronto's financial district. The maquette shows phase one, the 51-storey, 1.2 million-square-foot Canada Trust Tower.

BCE Development Corporation (BCED), the 67 per cent owned real estate development arm of the BCE family, has extensive revenue property and land assets. Of its total of more than $3 billion in assets, about 85 per cent are in the United States.

Earnings
As a result of a strong fourth quarter, BCED's 1987 net earnings exceeded expectations, rising 67 per cent to $16.1 million, while assets increased 14 per cent. The growth in the company's assets is a positive indicator for the future. As the financial performance of these assets improves, they will become increasingly valuable contributors to BCE's overall financial picture.

BCE Place
During the year, ownership of BCE Place, a major multi-phase commercial development on a key block in Toronto's financial core, was transferred to BCE Development from BCE. Municipal authorities overwhelmingly approved plans for the site, and excavation for the first of two planned towers of this 2.6 million-square-foot complex commenced in 1987. This tower, which has been named for its lead tenant, Canada Trust, will be ready for occupancy in early 1990.

BCE Place is an exciting example of architectural excellence and will bring to downtown Toronto the attendant benefits of a well-planned, comprehensive core development. It will be a timely addition in relation to expected demand for office space in Toronto's financial district.

A feature of the project is the preservation of a group of historic nineteenth century commercial structures along the site's perimeter. A 90-foot high glass-covered galleria, or interior street, will run from Bay Street through the heart of BCE Place. It will link the two office towers to the restored buildings of the historic precinct and also open onto the Garden Court which will run south to Front Street.

Income-producing Assets
During 1987, the company made progress in enhancing income from the large portfolio of U.S. commercial properties it acquired in 1986. At year-end, 76 per cent of the company's total rentable commercial space was under lease. Retail space under development tripled during the year to almost 1.5 million square feet.

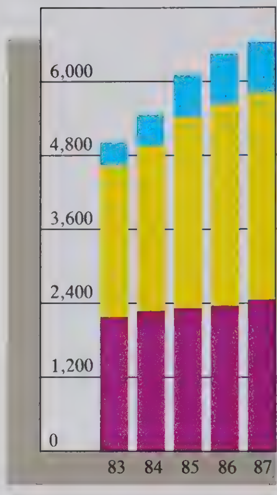
Two significant projects were completed and opened during the summer. The 36-storey Minnesota World Trade Center is located in St. Paul's business district. The 35-storey Quaker Tower, in downtown Chicago, is world headquarters of the Quaker Oats Company. It is part of that city's Riverfront complex and also carries the World Trade Center designation.

New Developments
New developments are proceeding in a number of markets where conditions are favourable. Construction has begun on 651 Nicollet, a retail complex located in the core of the business and retail district of Minneapolis. Chicago Place, a 320,000 square-foot prestige development on Chicago's North Michigan Avenue, will be underway in the spring of 1988. Major leases were signed with Saks Fifth Avenue for new department stores in both these locations.

At Indian Wells, California, near Palm Springs, BCED holds a minority interest in a $125 million, 564-room luxury Stouffer's hotel which is now under construction.

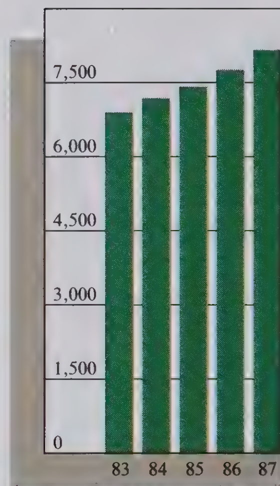
To pursue further development opportunities, BCED has opened an office in Montreal.

Telecommunications operations — revenues
(millions of dollars)

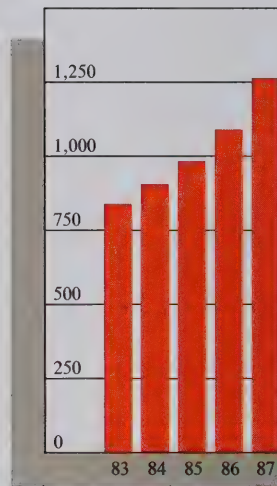


Local service
Long distance service
Directory advertising and miscellaneous — net

Network access services
(thousands)



Long distance messages
(millions)



Net Income

BCE had consolidated net income of $1,087 million in 1987, compared with $1,024 million in 1986 and $1,051 million in 1985. Consolidated net income applicable to common shares was $1,054 million ($3.91 per common share) in 1987, compared with $986 million ($3.83 per share) in 1986 and $1,009 million ($4.23 per share) in 1985.

Earnings per share increased by 2.1 per cent in 1987, compared with a decrease of 9.5 per cent in 1986 and an increase of five per cent in 1985. Earnings per share for 1987 were based on an average of 269.4 million common shares outstanding, up 4.6 per cent from 257.6 million in 1986, which had increased eight per cent from 238.5 million in 1985. Consolidated earnings per common share are after deducting preferred dividend requirements equivalent to $0.12 per share in 1987, $0.14 in 1986 and $0.18 in 1985.

BCE's 1987 results were favourably affected by an increase of $63 million of miscellaneous income items, realized principally by Bell Canada, and by the reduced impact of unrealized foreign currency losses due to improved performance of the Canadian dollar during the year.

Contributions to Earnings

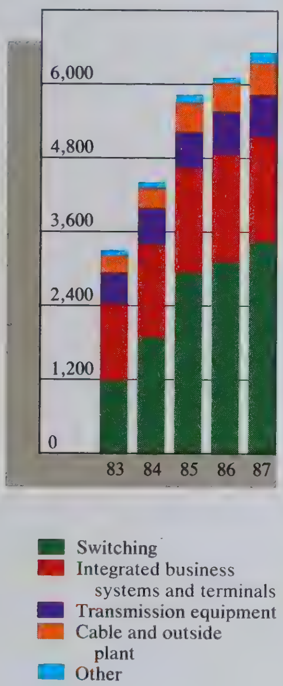
Bell Canada contributed $703 million ($2.61 per common share) to BCE's consolidated net income in 1987, compared with $664 million ($2.58 per share) in 1986 and $633 million ($2.65 per share) in 1985.

Northern Telecom Limited, 52.5 per cent owned by BCE, contributed $227 million ($0.84 per share) in 1987, compared with $208 million ($0.81 per share) in 1986 and $196 million ($0.82 per share) in 1985.

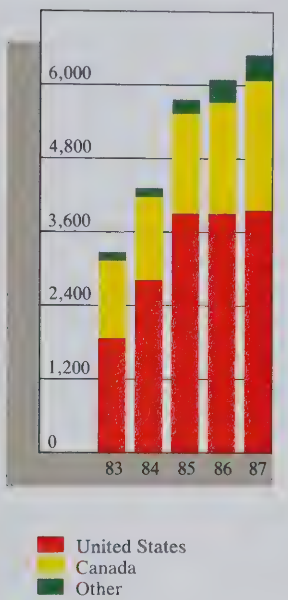
Other companies contributed $157 million ($0.58 per share) in 1987, compared with $152 million ($0.58 per share) in 1986 and $222 million ($0.94 per share) in 1985.

Included within the contributions from other companies were 1987 amounts of $41 million ($0.15 per share) from TCPL and $69 million ($0.26 per share) from international consulting services. This compares with 1986 figures of $31 million ($0.12 per share) from TCPL and $79 million ($0.31 per share) from international

NTL revenues
by product lines
(millions of dollars)



NTL revenues
by geographic areas
(millions of dollars)



consulting services; and with 1985 amounts of $102 million ($0.43 per share) from TCPL and $78 million ($0.33 per share) from international consulting services.

Telecommunications Operations
Operating revenues of Bell Canada and other telecommunications operating subsidiaries increased by $222 million (3.4 per cent) in 1987, by $509 million (8.4 per cent) in 1986 and by $491 million (8.9 per cent) in 1985.

Local service revenues increased by $109 million (4.6 per cent) in 1987, compared with $26 million (1.1 per cent) in 1986 and $59 million (2.6 per cent) in 1985. (Excluding the effect of the 1985 interim rate increase, local service revenues increased by 2.3 per cent in 1986 and by 1.4 per cent in 1985.)

The major portion of local service revenues is derived from network access services, which showed growth in both the residential and the business markets. Network access services increased by 4.8 per cent in 1987, compared with 4.3 per cent in 1986 and 3.9 per cent in 1985. The increases in 1985, 1986 and, to a lesser extent, in 1987, were partially offset by the impact of conversions from traditional rental services to sales-type lease services, and by some competitive erosion in the provision of terminal equipment.

Long distance revenues increased by $53 million (1.6 per cent) in 1987, compared with $315 million (10.4 per cent) in 1986 and $301 million (11.0 per cent) in 1985. The number of long distance messages increased by 15.7 per cent in 1987, 10.8 per cent in 1986 and 9.2 per cent in 1985. The increase in the number of long distance messages in 1987 reflected the continuing strength of the economy and, to a lesser extent, the effect of lower long distance rates within Bell Canada's territory, which became effective January 1, and July 1, 1987. It is estimated that, in the absence of such rate reductions, 1987 long distance service revenues would have increased by approximately 10 per cent. (Excluding the effect of an interim rate increase in 1985, long distance service revenues increased by 11.1 per cent in 1986 and 10.3 per cent in 1985.)

On December 11, 1987, the CRTC completed a public hearing (which had begun on October 27, 1987) to establish Bell Canada's revenue requirement for 1988, including its rate of return on common equity; to consider the establishment of new rates for 1988; and to address the issues raised by Bell Canada's March 17, 1987 revised application for rate rebalancing. No decision has been rendered to date.

Operating expenses increased by $293 million (6.2 per cent) in 1987, $401 million (9.3 per cent) in 1986 and $342 million (8.6 per cent) in 1985. The increase in 1987 is due primarily to increases in salaries and wages and to higher depreciation expense. This increase was partially offset by lower pension expenses in 1987, mainly attributable to above average returns on pension plan assets in prior years. The increase in 1986 resulted primarily from higher employee-related expenses and the expensing of various items which in the past had been capitalized.

Telecommunications Equipment Manufacturing*
Revenues of Northern Telecom were $6,390 million, up 5.9 per cent from $6,036 million in 1986, and compared with $5,766 million in 1985. These increases were attributable to volume growth. Revenues increased in all major geographic regions despite price declines, with the most significant gain recorded by central office switching.

Revenues from the U.S. in 1987 were $3,978 million (62 per cent of total revenues), compared with $3,966 million (66 per cent of total revenues) in 1986 and $3,930 million (68 per cent of total revenues) in 1985.

Canadian revenues showed the strongest rate of growth in 1987 as they advanced 18 per cent to $2,159 million (34 per cent of total revenues) from $1,822 million (30 per cent of total revenues) in 1986, which were up 11 per cent from $1,648 million (29 per cent of total revenues) in 1985.

Central office switching revenues in 1987 were $3,420 million (54 per cent of total revenues), up 10 per cent from 1986 revenues of $3,096 million (51 per cent of total revenues), which were up six per cent from $2,923 million (51 per cent of total revenues) in 1985. The increase in 1987 occurred despite price reductions and was due to increased demand.

Integrated business systems and terminals revenues showed only a marginal decrease in 1987 to $1,728 million (27 per cent of total revenues), from $1,782 million (30 per cent of total revenues) in 1986 and $1,715 million (30 per cent of total revenues) in 1985. Price reductions and a change in distribution in part of the U.S. market offset volume gains.

Transmission revenues were $662 million (10 per cent of total revenues) in 1987, up two per cent from $650 million (11 per cent of total revenues) in 1986, which were up 10 per cent from $589 million in 1985. Growth in both years was driven by higher demand in Canada as a result of record housing starts and increased demand for long distance service.

Cable and outside plant revenues were $542 million (eight per cent of total revenues) in 1987, up 12 per cent from $484 million (eight per cent of total revenues) in 1986, which were down five per cent from 1985 revenues of $510 million (nine per cent of total revenues). The increase in 1987 reflected the strong level of new housing starts in Canada. The decline in 1986 revenues resulted from lower sales of fiber optic cable.

Gross profit increased in 1987 by $300 million, to $2,596 million from $2,296 million in 1986, which was $178 million better than 1985. The gross margin improved to 40.6 per cent of total revenues in 1987, from 38.0 per cent in 1986, and 36.7 per cent in 1985. The increase in profit margins for the year 1987 reflected improved margins in central office switching, due to the continuing success of cost-reduction and productivity programs.

The orders on hand at December 31, 1987, were $2,067 million, compared with $2,125 million in 1986 and $2,073 million in 1985. Most of the current orders on hand, representing orders with a shorter delivery interval compared to prior years, are for delivery in 1988.

* Northern Telecom reports its results to its shareholders in U.S. dollars; however, Northern Telecom results are reported herein in Canadian dollars.

Selling, general and administrative expenses increased by $156 million to $1,210 million (18.9 per cent of total revenues) over the 1986 level of $1,054 million (17.5 per cent of total revenues); which had increased by $103 million over the 1985 level of $951 million (16.5 per cent of total revenues). The increase in 1987 reflects higher selling and marketing expenses directed at expanding Northern Telecom's presence in all its markets. Net research and development (R&D) investment in 1987 was $780 million (12.2 per cent of total revenues), compared with $659 million (10.9 per cent of total revenues) in 1986; the 1985 level was $586 million.

Research and Development
Consolidated R&D expenditures, which include net R&D expenditures of Northern Telecom mentioned above, amounted to $925 million in 1987 (an increase of 17.4 per cent over 1986), compared with $788 million in 1986 and $707 million in 1985.

Real Estate Operations
Operating revenues for 1987 were $404 million, compared with $292 million for 1986 and $408 million for 1985. Operating expenses for 1987 were $359 million, compared with $282 million in 1986 and $403 million for 1985. The increases in revenues, expenses and net revenues in 1987, compared with 1986, are due mainly to sales of properties in Canada and the inclusion of the results of BCE Development Properties Inc., acquired in the second quarter of 1986.

Other Operations
Other operations include international consulting services; printing, packaging and publishing; and other fields. Operating revenues were $1,092 million in 1987, compared with $1,063 million in 1986 and $1,051 million in 1985. Operating expenses were $943 million in 1987, compared with $876 million in 1986 and $878 million in 1985. The principal reason for the decrease in net revenues in 1987, compared with 1986, is the lower contribution from international consulting services, resulting from the reduced level of activities with respect to the second five-year management contract with the government of the Kingdom of Saudi Arabia, which concluded at the end of 1987. A one-year extension, to December 12, 1988, to the contract for services in the Kingdom of Saudi Arabia was signed on November 12, 1987. The contract extension reflects further reductions in the number of employees in the Kingdom.

Associated Companies
The equity in net income of associated companies was $110 million in 1987, compared with $56 million in 1986 and $124 million in 1985. The increase in 1987 reflects the equity income in STC and Memotec Data Inc., acquired in 1987, and an increase in TCPL's contribution in 1987 compared with 1986.

Liquidity and Capital Resources
The principal requirement for funds is for capital expenditures and to acquire new and additional investments.

Consolidated net capital expenditures during 1987 were $3,358 million, compared with $2,753 million in 1986 and $2,428 million in 1985. Substantially all such capital expenditures were made by subsidiaries, particularly Bell Canada, Northern Telecom and BCE Development Corporation (BCED).

Consolidated investments acquired during the last three years amounted to $1,450 million in 1987, $585 million in 1986 and $477 million in 1985. The amount for 1987 included investments of $1,089 million in STC, and $199 million in Memotec Data Inc., as well as additional investments of $69 million in TCPL. The amount for 1986 included additional investments of $139 million in non-consolidated finance subsidiaries and

$207 million in TCPL, as well as investments of $197 million in BCE Development Properties Inc. The amount for 1985 included additional investments of $144 million in non-consolidated finance subsidiaries and $51 million in TCPL, as well as investments of $163 million in BCED and $35 million in Computer Innovations Distribution Inc.

BCE Inc.

BCE raised $291 million of common equity during the year 1987, principally by means of the Dividend Reinvestment and Stock Purchase Plan. BCE's net short-term borrowings amounted to $179 million at December 31, 1987, compared with $95 million at December 31, 1986. In May 1987, BCE issued in Europe $300 million Series 3 Notes, at an annual coupon of 10% maturing on May 28, 1992. During 1987, BCE invested $199 million for the acquisition of an interest of approximately 29 per cent in Memotec Data Inc. In 1987, BCE redeemed the balance of its outstanding Second Preferred Shares, Series One, for $79 million, held by Bell Canada and purchased $300 million of Bell Canada common shares.

Bell Canada

Gross capital expenditures were $1,991 million in 1987, compared with $1,648 million in 1986, reflecting the growth in demand for services. Bell Canada's capital expenditure program in 1988 is expected to increase by approximately eight per cent to $2,150 million.

During 1987 and 1986, funds from external sources amounted to $1,100 million and $700 million, respectively. In 1987, these funds were obtained through issues of $250 million of debentures in Canada, $100 million of debentures in Japan, a private placement in the United States of 195 million New Zealand dollar notes (equivalent to Can. $151 million), 100 million Swiss francs debentures (Can. $95 million) and the issue of preferred shares to the public in Canada for $125 million. In 1986, funds from external sources were obtained through issues of debentures in Europe and Canada, for a total amount of $325 million and issues of preferred shares to the public in Canada for $150 million.

Northern Telecom

Capital expenditures in 1987 were $554 million, compared with $422 million in 1986 and $624 million in 1985. During 1987 Northern Telecom redeemed series 1 and 2 preferred shares, totalling $199 million, and repaid $99 million of long-term debt. In October 1987, Northern Telecom acquired 27.5 per cent of the outstanding ordinary shares of STC for $1,089 million. To help finance this acquisition, Northern increased its short-term borrowings by the issue of U.S. $322 million of commercial paper, sold privately U.S. $113 million 9¾% Notes due December 1992 and, through a private placement, raised U.S. $100 million 9.6% Notes, due December 1997; the balance was financed by internal sources and by dividends of U.S. $103 million from non-consolidated finance subsidiaries.

BCED

During 1987, BCED directly issued $90 million of preferred shares. In addition, a subsidiary of BCED issued preferred shares for an aggregate amount of $104 million. BCE provided certain guarantees with respect to the latter issue.

Contents

Consolidated Financial Statements

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of BCE Inc. and its subsidiaries, and all information in this annual report, are the responsibility of management and have been approved by the board of directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the corporation and its subsidiaries, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies which govern ethical business conduct.

The board of directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, consisting solely of outside directors. The audit committee reviews the corporation's annual consolidated financial statements and recommends their approval by the board of directors. The shareholders' auditors have full access to the audit committee, with and without management being present.

These financial statements have been examined by the shareholders' auditors, Touche Ross & Co., chartered accountants, and their report is presented below.

Donald R. Newman
Vice-President and Comptroller

Auditors' Report

The Shareholders, BCE Inc.

We have examined the consolidated balance sheets of BCE Inc. and subsidiaries as at December 31, 1987 and 1986 and the consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1987 and 1986 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1987 in accordance with Canadian generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.
Chartered Accountants

Montreal, Quebec
February 11, 1988

Consolidated Income Statement

	For the years ended December 31	1987	1986	1985
			millions of dollars	
Telecommunications operations	Operating revenues	$6,763	$6,541	$6,032
	Operating expenses	4,991	4,698	4,297
	Net revenues — telecommunications operations	1,772	**1,843**	**1,735**
Telecommunications equipment manufacturing	Revenues (note 2)	6,390	6,036	5,766
	Cost of revenues	3,794	3,740	3,648
	Selling, general, administrative and other expenses	1,990	1,713	1,537
		5,784	5,453	5,185
	Net revenues — telecommunications equipment manufacturing	606	**583**	**581**
Real estate operations	Operating revenues	404	292	408
	Operating expenses	359	282	403
	Net revenues — real estate operations	45	**10**	**5**
Other operations	Operating revenues	1,092	1,063	1,051
	Operating expenses	943	876	878
	Net revenues — other operations	149	**187**	**173**
	Total net revenues	2,572	**2,623**	**2,494**
Other income (expense)	Equity in net income of associated companies (note 3)	110	56	124
	Allowance for funds used during construction	31	28	22
	Interest — long-term debt	(597)	(566)	(522)
	— other debt	(81)	(48)	(70)
	Unrealized foreign currency losses (notes 2 and 18)	(10)	(38)	(38)
	Miscellaneous — net	215	152	123
		(332)	**(416)**	**(361)**
	Income before income taxes and minority interest	2,240	2,207	2,133
	Income taxes (note 5)	866	932	847
	Income before minority interest	1,374	1,275	1,286
	Minority interest	287	251	235
	Net income (notes 18 and 21)	1,087	**1,024**	**1,051**
	Dividends on first preferred shares	33	38	42
	Net income applicable to common shares	$1,054	**$ 986**	**$1,009**
Earnings per share	Earnings per common share (notes 6, 18 and 21)	$3.91	$3.83	$4.23
	Assuming full dilution	$3.85	$3.77	$4.13
	Dividends declared per common share	$2.41	$2.37	$2.30
	Average common shares outstanding (thousands)	269,402	257,623	238,541

The important differences between Canadian and United States generally accepted accounting principles affecting the consolidated income statement are described and reconciled in note 18.

Consolidated Balance Sheet

	Assets		
	As at December 31	1987	1986
		millions of dollars	
Current assets	Cash and temporary cash investments — at cost (approximates market)	$ 206	$ 680
	Accounts receivable — principally from customers, including $40 (1986 — $32) from associated companies, and less $62 (1986 — $70) for provision for uncollectibles	2,749	2,802
	Inventories (note 8)	1,039	1,044
	Other (principally prepaid expenses)	175	163
		4,169	**4,689**
Investments (at equity)	Associated companies (notes 2 and 3)	2,824	1,315
	Non-consolidated finance subsidiaries (notes 2 and 4)	753	875
		3,577	**2,190**
Property, plant and equipment (note 9)	At cost	24,640	22,537
	Less: Accumulated depreciation	7,768	7,034
		16,872	**15,503**
Other assets	Long-term notes and receivables	932	824
	Deferred charges — unrealized foreign currency losses, less amortization	186	296
	— other	231	150
	Cost of shares in subsidiaries in excess of underlying net assets, less amortization (note 2)	58	62
		1,407	**1,332**
	Total assets	$26,025	**$23,714**

On behalf of the Board of Directors:

Marcel Bélanger
Director

E. Neil McKelvey
Director

Liabilities and Shareholders' Equity

As at December 31		1987	1986
		millions of dollars	
Current liabilities	Accounts payable	$ 2,255	$ 1,997
	Advanced billing and payments	124	119
	Dividends payable	182	177
	Taxes accrued	109	338
	Interest accrued	155	128
	Debt due within one year (note 10)	1,558	868
		4,383	3,627
Long-term debt	Long-term debt (including unrealized foreign currency losses) (note 11)	7,116	6,683
Deferred credits	Income taxes	2,064	1,929
	Other	451	513
		2,515	2,442
Minority interest in subsidiary companies	Preferred shares	1,020	836
	Common shares	1,724	1,503
		2,744	2,339
Preferred shares	Preferred shares (redeemable) (note 12)	243	257
Common shareholders' equity	Stated capital of common shares (note 13)	4,414	4,099
	Contributed surplus	1,034	1,034
	Retained earnings	3,508	3,115
	Foreign exchange adjustment (note 14)	68	118
		9,024	8,366
Commitments and contingent liabilities (notes 7 and 11)			
	Total liabilities and shareholders' equity	$26,025	$23,714

Donald R. Newman
Vice-President and Comptroller

Consolidated Statement of Retained Earnings

For the years ended December 31	1987	1986	1985
		millions of dollars	
Balance at beginning of year	$3,115	**$2,757**	**$2,301**
Net income	1,087	1,024	1,051
	4,202	**3,781**	**3,352**
Deduct:			
Dividends			
First preferred shares	33	38	42
Common shares	650	615	550
	683	**653**	**592**
Costs related to issuance and redemption of share capital of BCE Inc. and of subsidiaries	11	13	3
	694	**666**	**595**
Balance at end of year	$3,508	**$3,115**	**$2,757**

Consolidated Statement of Changes in Financial Position

For the years ended December 31	1987	1986	1985
		millions of dollars	
Cash provided from (used for) operating activities			
Net income	$ 1,087	$ 1,024	$ 1,051
Items not affecting cash			
Depreciation	1,530	1,411	1,312
Minority interest	287	251	235
Deferred income taxes	135	164	52
Equity in net income of associated companies lower than (in excess of) dividends received	(23)	19	(59)
Equity in net earnings of non-consolidated finance subsidiaries	(64)	(65)	(45)
Allowance for funds used during construction	(31)	(28)	(22)
Other items	(72)	26	117
Cash recovery from real estate sales (net of related debt of $204 in 1987, 1986 — $133, 1985 — $269)	88	95	100
(Increase) decrease in working capital (note 16)	112	86	(118)
	3,049	2,983	2,623
Cash provided from (used for) financing activities			
Proceeds from long-term debt	1,701	675	682
Reduction of long-term debt	(575)	(520)	(419)
Issue of common shares			
Underwritten and privately placed issues	—	388	—
Dividend Reinvestment and Stock Purchase Plan	288	266	379
Optional Stock Dividend Program	3	4	18
In exchange for shares of a subsidiary	9	—	—
Issues of common and preferred shares by subsidiaries to minority shareholders	427	287	257
Redemption of preferred shares by subsidiaries	(201)	—	—
Notes payable and bank advances	353	251	(334)
Amounts due to non-consolidated finance subsidiaries	(29)	(37)	146
Dividends from non-consolidated finance subsidiaries	134	10	8
Other items	(71)	107	(6)
	2,039	1,431	731
Cash provided from (used for) investing activities			
Capital expenditures (net)	(3,358)	(2,753)	(2,428)
Investments (less working capital of $115 acquired in 1985)	(1,450)	(585)	(362)
Long-term notes and receivables	(108)	41	(78)
Other items	146	23	128
	(4,770)	(3,274)	(2,740)
Dividends declared by			
The parent corporation	(683)	(653)	(592)
Subsidiaries to minority shareholders	(109)	(87)	(72)
	(792)	(740)	(664)
Cash and temporary cash investments			
Increase (decrease)	(474)	400	(50)
At beginning of year	680	280	330
At end of year	$ 206	$ 680	$ 280

Notes to Consolidated Financial Statements

1. BCE Inc.

On December 16, 1987, the directors of Bell Canada Enterprises Inc. approved a change in its name from Bell Canada Enterprises Inc. to BCE Inc. The change became effective on January 1, 1988. The corporation is known generally as BCE.

2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and all figures are in Canadian dollars. These statements conform in all material respects with International Accounting Standards. Certain previously reported figures have been reclassified to conform with the current presentation.

With respect to the consolidated financial statements of BCE, the important differences between Canadian and United States generally accepted accounting principles are described and reconciled in note 18.

Consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries, either direct or indirect, except for finance subsidiaries of Northern Telecom Limited. These non-consolidated finance subsidiaries and the investments in associated companies (20% to 50% owned) are accounted for by the equity method. The finance subsidiaries are not consolidated because their business is fundamentally different from that of the consolidated group.

At December 31, 1987, the direct subsidiaries of BCE (all 100% owned, unless otherwise indicated) included Bell Canada, Northern Telecom Limited (52.5%), BCE PubliTech Inc., NewTel Enterprises Limited (54.9%), Télébec Ltée, Northern Telephone Limited (99.8%), Bell Canada International Inc., BCE Development Corporation (BCED) (67.0%) — a real estate development corporation acquired in the first quarter of 1985 — and BCE Commcor Inc. (which owned 85.5% of BCE Mobile Communications Inc.).

The excess of cost of shares over acquired equity (goodwill) of subsidiary and associated companies is being amortized to earnings on a straight-line basis over its estimated life. The amortization, over varying periods up to 40 years, amounted to $23 million in 1987 (1986 — $21 million, 1985 — $18 million).

Telecommunications equipment purchased by Bell Canada, and the other telephone subsidiaries of BCE, from Northern Telecom Limited and its subsidiaries is reflected in BCE's consolidated balance sheets at the cost to the purchasing companies, and is included in telecommunications equipment manufacturing revenues in the consolidated income statement. To the extent that any income related to these revenues and those from associated companies, has not been offset by depreciation or other operating expenses, it remains in consolidated retained earnings and consolidated income. This practice is generally followed with respect to activities of regulated industries. All other significant intercompany transactions have been eliminated in the consolidated financial statements.

2. ACCOUNTING POLICIES (continued)

Telecommunications equipment manufacturing revenues comprise:

	1987	1986	1985
		millions of dollars	
Revenues from			
Bell Canada	$1,391	$1,147	$ 989
Other telephone subsidiary and associated companies of BCE	146	110	97
Sub-total	**1,537**	**1,257**	**1,086**
Revenues from others	4,853	4,779	4,680
Total revenues	**$6,390**	**$6,036**	**$5,766**

Depreciation

Depreciation is generally computed on the straight-line method, using rates based on the estimated useful lives of the assets.

Research and development

All research and development costs incurred, which amounted to $925 million (1986 — $788 million, 1985 — $707 million), were charged to income.

Translation of foreign currencies

Foreign operations are classified as integrated or self-sustaining.

— Integrated foreign operations and transactions denominated in foreign currencies

Current assets (excluding inventories and prepaid expenses), current liabilities and long-term monetary assets and liabilities are translated at the rates in effect at the balance sheet date; whereas other assets and other liabilities are translated at rates prevailing at the respective transaction dates; revenues and expenses are translated at average rates prevailing during the year; except for cost of inventory used, depreciation and amortization, which are translated at exchange rates prevailing when the related assets were manufactured or acquired. Currency gains and losses are reflected in net income of the year, except for unrealized foreign currency gains and losses on long-term monetary assets and liabilities, which are reported as a deferred charge and amortized over the remaining lives of the related items on a straight-line basis.

— Self-sustaining foreign operations

Assets and liabilities denominated in a foreign currency are translated in Canadian dollars, at exchange rates in effect at the balance sheet date. The resulting gains or losses are accumulated in a separate component of shareholders' equity. Revenue and expense items are translated at average exchange rates prevailing during the year.

Leases

Leases are classified as capital or operating leases. When the corporation is the lessor, rental revenue from operating leases is recognized as service is provided to customers. For leases which qualify as sales-type leases, the sales revenue is recorded at the inception of the lease. When the corporation is the lessee, assets recorded under capital leases are amortized on a straight-line method, using rates based on the estimated useful life of the asset or based on the lease term as appropriate. Obligations recorded under the capital leases are reduced by rental payments net of imputed interest.

2. ACCOUNTING POLICIES (continued)

Inventories

Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) or net realizable value. The cost of finished goods and work-in-process inventories is comprised of material, labour and manufacturing overhead.

Allowance for funds used during construction

Regulatory authorities require the telephone companies to provide for a return on capital invested in new telephone plant while under construction, by including an allowance for funds used during construction as an item of income during the construction period, and also as an addition to the cost of the plant constructed. Such income is not realized in cash currently but will be realized over the service life of the plant.

Consulting services

The consulting services under contract to clients, principally foreign telecommunications organizations, are included in other operations. The percentage-of-completion accounting method is used in the determination of income from such operations.

Real estate activities

Certain indirect costs, including financing costs, are capitalized. The financing costs capitalized amounted to $138 million for the year ended December 31, 1987 (1986 — $101 million, 1985 — $45 million).

Income taxes

BCE and its subsidiaries use the tax allocation basis of accounting for income taxes. The corporation provides for income taxes based on accounting income for tax purposes included in the financial statements, regardless of when such income is subject to taxes under the tax laws. Investment tax credits reduce the provision for income taxes in the same periods in which the related expenditures are charged to earnings.

3. INVESTMENTS IN ASSOCIATED COMPANIES

BCE uses the equity method of accounting for investments in companies where ownership by BCE, or a subsidiary, ranges from 20% to 50%. Under this accounting method, BCE's proportionate share of income of such companies, from the dates of their acquisition, net of amortization of excess purchase price over net assets acquired, is taken into income and added to the cost of investments. Income received from these companies reduces the carrying amounts of the investments.

3. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

The following is a summary of the investments in associated companies for the last three years:

	millions of dollars					
	TransCanada PipeLines Limited (TCPL) (1)	STC PLC (3)	Memotec Data Inc. (4)	MT&T and Bruncor Inc. (5)	Other companies	Total
1985						
Balance — January 1, 1985	$ 777	—	—	$123	$ 45	$ 945
Cost of investments	$ 51	—	—	$ 14	$ 37	$ 102
Equity income	102	—	—	19	3	124
Income received	(52)	—	—	(12)	(1)	(65)
Other adjustments	6	—	—	—	(1)	5
Balance — December 31, 1985	$ 884	—	—	$144	$ 83	$1,111
1986						
Cost of investments	$ 207	—	—	$ 12	$ 11	$ 230
Equity income	31	—	—	19	6	56
Income received	(60)	—	—	(14)	(1)	(75)
Other adjustments	(6)	—	—	—	(1)	(7)
Balance — December 31, 1986	$1,056	—	—	$161	$ 98	$1,315
1987						
Cost of investments	$ 69	$1,089	$199	$ 8	$ 13	$1,378
Equity income	41(2)	27	11	21	10	110
Income received	(70)	—	(1)	(14)	(2)	(87)
Currency translation adjustments	(23)	131	—	—	—	108
Balance — December 31, 1987	$1,073	$1,247	$209	$176	$119	$2,824

(1) At December 31, 1987, BCE owned 63,768,551 common shares of TCPL, which represented 49.3% of the outstanding shares at that date. During the year 1987, BCE acquired 4,057,182 shares; 12,437,513 shares in 1986, and 2,314,839 shares in 1985. The cost of investment in 1986 included $150 million for 8,972,278 Units of TCPL, purchased in July 1986, which consisted of an equal number of common shares and 4,486,139 common share purchase warrants (each of which entitles the holder to purchase, until July 13, 1989, one common share of TCPL at $19.25). The July 1986 purchase of TCPL Units, made concurrently with a public offering, maintained BCE's proportionate ownership interest in TCPL. BCE's equity income in TCPL is based on TCPL's net income applicable to common shares, less BCE's amortization of goodwill which is being amortized over 20 years.

(2) BCE's reported equity income for TCPL in 1987 takes into account its share ($4 million) of the reduction, by $8.4 million, of TCPL's previously reported earnings for the year 1986. This resulted from a regulatory decision in June 1987, decreasing natural gas transmission tolls from August 1, 1986.

(3) At December 31, 1987, Northern Telecom Limited owned 152,020,360 ordinary shares of STC PLC (STC), a company incorporated under the laws of England, whose principal country of business is the United Kingdom. These shares, which represent approximately 27.5% of the outstanding shares, were acquired at a cost of $1,089 million in the fourth quarter of 1987. The excess of cost over the fair value of assets acquired, which amounted to $733 million, is being amortized over 40 years, Northern's share of STC's earnings (less goodwill amortization) is included in equity income since the date of acquisition.

(4) At December 31, 1987, the investments in Memotec Data Inc. represented an interest of approximately 29% on a fully diluted basis. Equity income is after amortization of goodwill which is being amortized over 20 years.

(5) At December 31, 1987, BCE owned 31.0% of the common shares of Bruncor Inc. and 7,662,956 common shares (32.5%) of Maritime Telegraph and Telephone Company, Limited (MT&T). Under a statute passed in 1966 by the Legislature of Nova Scotia, no more than 1,000 shares of MT&T may be voted by any one shareholder.

3. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

a) The reported results and financial position of TCPL are:

	1987	1986	1985
		millions of dollars	
Revenues	$3,355	$4,145	$4,702
Income before provisions	$ 160	$ 167	$ 278
Investment and asset provisions	$ —	$ 115	$ 116
Net income	$ 160	$ 52	$ 162
Income, before provisions, applicable to common shares	$ 121	$ 124	$ 233

	December 31, 1987*	December 31, 1986
	millions of dollars	
Total assets	$6,669	$5,951
Total liabilities	$4,547	$3,857
Preferred shareholders' equity	$ 444	$ 444
Common shareholders' equity	$1,678	$1,650

* The financial position of TCPL reflects the acquisition of Encor Energy Corporation Inc. effective December 31, 1987.

b) The reported results and financial position of STC are:

	1987	1986	1985
		millions of dollars	
Revenues	$4,532	$3,942	$3,535
Gross profit	$1,853	$1,602	$1,226
Earnings (loss) before extraordinary items	$ 258	$ 177	$ (21)
Net earnings (loss) applicable to ordinary shares	$ 284	$ 210	$ (95)

	December 31, 1987	December 31, 1986
	millions of dollars	
Total assets	$3,152	$2,431
Total liabilities	$1,597	$1,318
Ordinary shareholders' equity	$1,555	$1,113

4. NON-CONSOLIDATED FINANCE SUBSIDIARIES

In the consolidated income statement of BCE, income from operations and foreign currency gains or losses of the finance subsidiaries of Northern Telecom Limited are included in Other income — miscellaneous; their income taxes are included with consolidated income taxes. The interest paid by Northern Telecom Limited and its consolidated subsidiaries to the finance subsidiaries, which is included in consolidated interest on long-term debt, amounted to $42 million for the year ended December 31, 1987 (1986 — $42 million, 1985 — $34 million).

The following is a summary of the combined financial data of these companies:

	1987	1986	1985
		millions of dollars	
Income	$125	$125	$103
Income from operations	$ 71	$ 69	$ 54
Net income	$ 64	$ 65	$ 45

	December 31, 1987	December 31, 1986
	millions of dollars	
Total assets	$1,312	$1,278
Total liabilities	$ 559	$ 403
Shareholders' equity	$ 753	$ 875

5. INCOME TAXES

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	1987	1986	1985
Statutory income tax rate in Canada	48.7%	49.8%	48.5%
(i) Allowance for funds used during construction, net of applicable depreciation adjustment	(.2)	(.2)	(.1)
(ii) Reduction of Canadian federal taxes applicable to manufacturing profits	(.7)	(.9)	(.5)
(iii) Equity in net income of associated companies	(2.4)	(1.3)	(2.8)
(iv) Tax incentives on research and development expenditures	(3.4)	(2.9)	(4.2)
(v) Difference between Canadian statutory rates and those applicable to foreign subsidiaries	(1.3)	(.7)	(.5)
(vi) Other	(2.1)	(1.6)	(.7)
Effective income tax rate	38.6%	**42.2%**	**39.7%**

Details of income taxes are as follows:

	1987	1986	1985
		millions of dollars	
Income before income taxes and minority interest			
Canadian	$1,668	$1,703	$1,524
Foreign	572	504	609
Total income before income taxes and minority interest	$2,240	**$2,207**	**$2,133**
Income taxes			
Canadian	$ 689	$ 767	$ 622
Foreign	177	165	225
Total income taxes	$ 866	**$ 932**	**$ 847**
Income taxes			
Current	$ 731	$ 741	$ 681
Deferred	135	191	166
Total income taxes	$ 866	**$ 932**	**$ 847**

Deferred income taxes result from deductions for tax purposes, principally in respect of plant, in excess of amounts currently charged to operations.

6. EARNINGS PER COMMON SHARE

Earnings per common share are based on the weighted average number of shares outstanding.

For the computation of the earnings per share, assuming full dilution, dividends on convertible preferred shares have been added back to income.

7. COMMITMENTS AS LESSEE

At December 31, 1987, the future minimum lease payments under capital leases and operating leases with initial non-cancellable lease terms in excess of one year were as follows:

	millions of dollars	
	Capital leases	Operating leases
1988	$ 20	$ 166
1989	21	115
1990	16	79
1991	15	56
1992	15	34
Thereafter	82	725
Total future minimum lease payments	169	$1,175
Less: Estimated executory costs	63	
Net minimum lease payments	106	
Less: Imputed interest	46	
Present value of net minimum lease payments	**$ 60**	

Rental expense applicable to all operating leases for the year 1987 was $268 million (1986 — $244 million, 1985 — $215 million).

8. INVENTORIES

	December 31, 1987	December 31, 1986
	millions of dollars	
Raw materials	$ 302	$ 272
Work-in-process	292	334
Finished goods	445	438
	$1,039	**$1,044**

9. PROPERTY, PLANT AND EQUIPMENT

	December 31, 1987		December 31, 1986	
	millions of dollars			
	Cost	Net of accumulated depreciation	Cost	Net of accumulated depreciation
Telecommunications operations				
Buildings, plant and equipment	$17,717	$11,639	$16,313	$10,716
Land	90	90	89	89
Plant under construction	423	423	374	374
Material and supplies	140	140	79	79
	18,370	12,292	**16,855**	**11,258**
Telecommunications equipment manufacturing				
Buildings, plant and equipment	3,016	1,603	2,693	1,479
Land	34	34	35	35
	3,050	1,637	**2,728**	**1,514**
Real estate operations				
Commercial properties	1,911	1,905	1,691	1,687
Land held for future development	456	456	551	551
Other properties	128	127	115	111
	2,495	2,488	**2,357**	**2,349**
Other operations				
Buildings, plant and equipment	711	441	582	367
Land	14	14	15	15
	725	455	**597**	**382**
	$24,640	$16,872	**$22,537**	**$15,503**
Capitalized leases included in the above amounts	$ 94	$ 56	$ 105	$ 65

10. DEBT DUE WITHIN ONE YEAR

	December 31, 1987	December 31, 1986
	millions of dollars	
Long-term debt — current portion	$ 729	$392
Notes payable	712	227
Bank advances	117	249
	$1,558	**$868**

11. LONG-TERM DEBT

					Total outstanding December 31, 1987	1986
					millions of dollars	
BCE Inc.						
11⅝% Notes due 1990					$ 50	$ 50
10¼% Notes due 1990 (a)					100	100
10% Notes due 1992					300	—
Total — BCE					***450***	***150***
Bell Canada						
Rate of interest	4.8 - 7⅞%	8 - 9⅞%	10 - 12¾%	13⅜ - 17.1%		
First mortgage bonds (b)						
Due 1987	$ —	$ —	$ —	$ —	—	37
1988	115	2	—	—	117	121
1989	65	11	—	—	76	81
1990	30	53	—	—	83	83
1991	56	2	—	—	58	58
1992	45	67	—	—	112	112
1993-2002	369	547	71	—	987	1,019
2003-2004	5	34	—	—	39	41
	685	**716**	**71**	**—**	**1,472**	**1,552**
Debentures and notes (c)						
Due 1987-1988	—	—	—	—	—	6
1989	—	—	—	—	—	103
1990	—	—	22	—	22	26
1991	—	—	50	195	245	261
1992	—	—	—	—	—	4
1993-2002	102	250	125	237	714	465
2003-2011	—	1,120	550	260	1,930	1,728
	102	**1,370**	**747**	**692**	**2,911**	**2,593**
Other					51	58
Total — Bell Canada					***4,434***	***4,203***
BCE Development Corporation (d)					*1,851*	*1,813*
Other subsidiaries						
Including $378 million (1986 — $407 million) owed to non-consolidated finance subsidiaries (e)					*1,110*	*909*
Sub-total — BCE consolidated					*7,845*	*7,075*
Less: Due within one year					729	392
Total — BCE consolidated					**$7,116**	**$6,683**

11. LONG-TERM DEBT (continued)

(a) Interest payments under BCE's 10¼% Notes due 1990 have been converted to a floating interest rate by way of an interest rate conversion agreement.

(b) The first mortgage bonds of Bell Canada, which include U.S. $518 million maturing from 1988 to 2004, are secured by a first mortgage and a floating charge of Bell Canada.

(c) Debentures and notes of Bell Canada include U.S. $750 million maturing from 1991 to 2010; 100 million Swiss francs maturing in 1993; and 195 million New Zealand dollar Notes maturing in 1994 which are hedged as to principal amount and related interest payments. In 1987, Bell Canada redeemed, prior to maturity, all of its $100 million 16% debentures, due 1989.

(d) At December 31, 1987, the consolidated debt of BCE Development Corporation (BCED) included project debt amounting to $1,824 million, of which $956 million is non-recourse debt secured by individual properties or mortgages and agreements for sale.

(e) At December 31, 1987, the non-consolidated finance subsidiaries of Northern Telecom Limited had debt due to third parties of $275 million (1986 — $163 million).

At December 31, 1987, the estimated amounts of long-term debt payable by the corporation in the years 1988 to 1992 were $729, $541, $374, $452 and $674 million, respectively.

12. PREFERRED SHARES

Authorized

The restated articles of incorporation of BCE provide for an unlimited number of first preferred shares and second preferred shares. The articles authorize the Directors to issue such shares in one or more series and to fix the number of shares of each series, and the conditions attaching thereto, prior to their issue.

	December 31, 1987		December 31, 1986	
	dollars in millions			
Outstanding	Number of shares	Stated capital	Number of shares	Stated capital
First Preferred Shares				
$1.96 shares, series G	204,431	$ 5	233,326	$ 6
$2.05 shares, series H	638,747	13	790,588	16
$2.70 shares, series I	11,266,156	225	11,777,353	235
Aggregate stated capital of outstanding First Preferred Shares		$243		**$257**
Second Preferred Shares, Series One*	—	—	**787,427**	**$ 79**

* These shares and related dividends were eliminated in the consolidated financial statements of BCE, because they were held by Bell Canada, a wholly owned subsidiary. On July 15, 1987 all these shares were redeemed.

12. PREFERRED SHARES (continued)

Following is a brief summary of the material characteristics of the first preferred shares:

	Redeemable at BCE's option	Preferred to common conversion basis	Convertible to	Number of shares converted at December 31, 1987	Purchase fund requirements (b)
First Preferred Shares (a)					
$1.96 shares	Redeemable at $25 per share	1 for 1.2	May 1, 1990	6,795,569 including 1987 — 28,895 (1986 — 37,843) (1985 — 83,245)	Quarterly 87,500 shares
$2.05 shares	Redeemable at $20 per share	1 for 1	Apr. 15, 1992	9,361,253 including 1987 — 151,841 (1986 — 239,718) (1985 — 854,178)	Quarterly 125,000 shares commencing in 1988
$2.70 shares	To be redeemed at $21.422 per share on March 16, 1988, including accrued dividend of $0.222	1 for 1	Mar. 15, 1988 (c)	546,344 including 1987 — 511,197 (1986 — 4,565) (1985 — 20,815)	

(a) All the first preferred shares are convertible into common shares. The first preferred shareholders are entitled to cumulative dividends at the respective rates set out in the titles of each series and have one vote per share.

(b) Purchase funds:
Under the terms and conditions of the purchase funds, BCE shall make all reasonable efforts to purchase the required number of shares in the open market for cancellation at a price not exceeding the stated capital per share plus costs of purchase. To the extent that BCE is unable to purchase such shares, the undertaking is cumulative to a maximum of eight quarters, including the current period requirements.

(c) These shares were convertible to March 15, 1992. Since they have been called for redemption on March 16, 1988, their conversion privilege expires March 15, 1988, the last business day prior to the date fixed for their redemption.

13. COMMON SHARES

Authorized: an unlimited number of common shares

	December 31, 1987		December 31, 1986	
	dollars in millions			
	Number of shares	Stated capital	Number of shares	Stated capital
Outstanding	273,868,475	$4,414	**265,275,696**	**$4,099**

Number of common shares issued during the last three years are as follows:

	1987	1986	1985
For cash			
Underwritten and privately placed issues	—	9,958,718	—
Shareholder Dividend Reinvestment and Stock Purchase Plan	7,598,316	7,234,548	9,526,150
Employees' Savings Plan (1966)	—	—	310,257
Exercise of options	4,192	—	—
Conversion of preferred shares	697,711	1,930,618	2,276,542
In exchange for shares of a subsidiary	213,816	—	—
Optional Stock Dividend Program	78,744	105,198	451,282
	8,592,779	**19,229,082**	**12,564,231**

Stock options

Under the Long-Term Incentive (Stock Option) Program (1985) (the "Plan"), options may be granted to officers and other key employees of BCE and of its subsidiaries to purchase common shares of BCE at a subscription price of 100% of market value. The options are exercisable during a period not to exceed ten years. The right to exercise options generally accrues over a period of four years of continuous employment. Options are not generally exercisable during the first twelve months after the date of the grant. Simultaneously with the grant of an option, the employee may be also granted the right to a special compensation payment ("SCP") (payable, in accordance with the terms of the Plan, in cash or in shares of BCE). The amount of any SCP is equal to the increase in market value of the number of BCE shares covered by the SCP (which number may not exceed the number of shares covered by the option to which it is related) from the date of grant of the SCP to the date of exercise of the option to which the SCP is related.

At December 31, 1987, a total of 4,995,808 common shares had been authorized for issuance under the Plan. Shares covered by options granted with respect to any year may not exceed one-half of one per cent of the outstanding common shares of the corporation at the end of the immediately preceding year.

As of February 11, 1988, options covering 517,072 shares were outstanding: 104,459 granted, with respect to the year 1984, at an exercise price of $39.375 per share; 130,060 granted, with respect to the year 1985, at an exercise price of $37.6875 per share; 127,954 granted, with respect to the year 1986, at an exercise price of $39.75 per share; and 154,599 granted, with respect to the year 1987, at an exercise price of $37.625 per share. One-half of the options granted with respect to 1984 and 1985 and one-quarter of those with respect to 1986 are now exercisable. In addition, SCPs have been granted to the same key employees covering the same number of shares as the options to which the SCPs are related.

Additional common shares reserved at December 31, 1987 — 21,858,752:

7,621,059 shares for issuance under the Shareholder Dividend Reinvestment and Stock Purchase Plan.

12,150,220 shares for issuance upon conversion of all convertible preferred shares.

2,087,473 shares for issuance under the Optional Stock Dividend Program.

14. FOREIGN EXCHANGE ADJUSTMENT

Following is an analysis of the foreign exchange adjustment included in the common shareholders' equity resulting from self-sustaining foreign operations:

	1987	1986	1985
		millions of dollars	
Balance at beginning of year	**$118**	**$137**	**$ 70**
Translation adjustments for the year	(50)	(19)	67
Balance at end of year	**$ 68**	**$118**	**$137**

15. UNUSED BANK LINES OF CREDIT

At December 31, 1987, unused bank lines of credit, generally available at the prime bank rate of interest, amounted to approximately $1,900 million.

16. CHANGES IN WORKING CAPITAL

(Increase) decrease in working capital:

	1987	1986	1985
		millions of dollars	
(Increase) decrease in current assets:			
Accounts receivable	$ 53	$(344)	$(493)
Inventories	5	176	—
Other current assets	(12)	(16)	(27)
Increase (decrease) in current liabilities:			
Accounts payable	258	237	255
Advanced billing and payments	5	14	12
Dividends payable	5	17	14
Taxes accrued	(229)	(2)	110
Interest accrued	27	4	11
	$ 112	**$ 86**	**$(118)**

17. QUARTERLY FINANCIAL DATA

Summarized consolidated quarterly financial data (in millions of dollars, except per share amounts):

	Three months ended			
1987	Mar. 31	June 30	Sept. 30	Dec. 31
Telecommunications operations				
Operating revenues	$1,611	$1,671	$1,681	$1,800
Net revenues	451	461	448	412
Telecommunications equipment manufacturing				
Revenues	1,520	1,663	1,523	1,684
Gross profit	540	653	635	768
Net revenues	103	142	126	235
Real estate operations				
Operating revenues	80	162	56	106
Net revenues	14	8	10	13
Other operations				
Operating revenues	274	281	287	250
Net revenues	29	35	32	53
Total revenues	**3,485**	**3,777**	**3,547**	**3,840**
Net income	248	254	245	340
Net income applicable to common shares	240	245	237	332
Earnings per common share	$.90	$.91	$.88	$1.22
Assuming full dilution	$.89	$.90	$.86	$1.19
Average common shares outstanding (thousands)	266,601	268,285	270,147	272,500

	Three months ended			
1986	Mar. 31	June 30	Sept. 30	Dec. 31
Telecommunications operations				
Operating revenues	$1,543	$1,630	$1,649	$1,719
Net revenues	454	467	478	444
Telecommunications equipment manufacturing				
Revenues	1,347	1,462	1,420	1,807
Gross profit	451	537	562	746
Net revenues	82	117	126	258
Real estate operations				
Operating revenues	53	62	42	135
Net revenues (Operating losses)	(2)	7	(1)	6
Other operations				
Operating revenues	252	270	282	259
Net revenues	44	56	51	36
Total revenues	**3,195**	**3,424**	**3,393**	**3,920**
Net income	240	254	272	258
Net income applicable to common shares	230	244	263	249
Earnings per common share	$.93	$.95	$1.01	$.94
Assuming full dilution	$.91	$.94	$ .99	$.93
Average common shares outstanding (thousands)	248,940	256,665	260,712	263,975

18. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN CANADA WITH UNITED STATES GAAP

(millions of dollars, except per share amounts)

	Three months ended			
1987	Mar. 31	June 30	Sept. 30	Dec. 31
Net income, as reported	$248	$254	$245	$340
Adjustments				
Foreign exchange (a)	77	(22)	27	—
Equity in net income of associated companies (b)	4	3	16	(139)
Net income — U.S. GAAP	**$329**	**$235**	**$288**	**$201**
Earnings per common share — U.S. GAAP	$1.20	$.84	$1.03	$.71

	Three months ended			
1986	Mar. 31	June 30	Sept. 30	Dec. 31
Net income, as reported	$240	$254	$272	$258
Adjustments				
Foreign exchange (a)	8	19	(1)	12
Equity in net income of associated companies (b)	(122)	(36)	(28)	(9)
Net income — U.S. GAAP	**$126**	**$237**	**$243**	**$261**
Earnings per common share — U.S. GAAP	$.47	$.89	$.90	$.96

	Year ended December 31		
	1987	1986	1985
Net income, as reported	$1,087	$1,024	$1,051
Adjustments			
Foreign exchange (a)	82	38	(69)
Equity in net income of associated companies (b)	(116)	(195)	(81)
Net income — U.S. GAAP	$1,053	**$ 867**	**$ 901**(c)
Earnings per common share — U.S. GAAP	$3.79	$3.22	$3.60

(a) Difference arising from the methods of accounting, under Canadian GAAP, for unrealized foreign currency gains and losses on long-term debt and under United States Financial Accounting Standards Board's Statement No. 52 — Foreign Currency Translation.

(b) The most significant factors causing these differences between Canadian and U.S. GAAP are the application of full cost accounting rules for oil and gas and the treatment of unrealized foreign currency gains and losses.

(c) If early retirement incentive plans in 1985 had been treated in accordance with the United States Financial Accounting Standards Board's Statement No. 74: Accounting for Special Termination Benefits Paid to Employees, net income for that year would have decreased by $29 million.

19. PENSIONS

BCE and most of its subsidiary companies have non-contributory defined benefit plans which provide for service pensions, based on length of service and rates of pay, for substantially all their employees. The policy is to fund pension costs, through contributions based on various actuarial cost methods, as permitted by pension regulatory bodies. Such contributions reflect actuarial assumptions regarding salary projection and future service benefits. Plan assets are represented by common and preferred shares, bonds and debentures, cash and short-term investments, real estate and secured mortgages. BCE's accounting for pension costs and plan benefits is in accordance with the recent recommendations of the Canadian Institute of Chartered Accountants.

The present value of the accrued plan benefits and the net assets available to discharge these benefits are as follows:

	December 31, 1987	December 31, 1986
		millions of dollars
Actuarial present value of plan benefits		
Accumulated plan benefits		
Vested	$3,602	$3,306
Non-vested	769	707
	4,371	4,013
Effect of salary projection	1,611	1,452
Accrued plan benefits	**$5,982**	**$5,465**
Net assets available for plan benefits — at market value	**$6,496**	**$6,247**

The provision for pension cost was $215 million for the year ended December 31, 1987 (1986 — $279 million, 1985 — $296 million). The decrease in the provision for pension cost for the year 1987 was due mainly to higher than expected returns realized on pension plan assets in prior years. The components of this provision for the year ended December 31, 1987 are as follows:

	millions of dollars
Service cost component	$226
Interest on accrued plan benefits	456
Return on plan assets	(260)
Other — net	(207)
	$215

Cost calculations were based on a value of assets adjusted to market over periods ranging from 3 to 5 years, which amounted to $6,254 million at December 31, 1987 (1986 — $5,639 million). The weighted average discount rate used in determining the accumulated and accrued plan benefits, and the weighted average assumed long-term rate of return on plan assets, was 7.7% for 1987 (1986 — 7.2%).

The cumulative difference between amounts expensed and the funding contributions from January 1, 1987, is reflected on the consolidated balance sheet and is derived as follows:

	millions of dollars
Excess of plan assets at market value over accrued plan benefits	$514
Unrecognized net experience gains	(413)
Unrecognized past services costs	10
Unrecognized net assets existing at January 1, 1987 being amortized over a weighted average of 17 years	(163)
Accrued liability included in the consolidated balance sheet	$ 52

In addition to pension benefits, BCE and its subsidiary companies provide certain health care and life insurance benefits for retired employees. The costs of such benefits, excluding life insurance, are paid out of current income, as benefits are received, and in 1987 amounted to $13 million (1986 — $12 million, 1985 — $12 million). Life insurance for retired employees is largely funded during their working lives.

20. INDUSTRY SEGMENTS INFORMATION

BCE and its subsidiaries operate principally in three reportable business segments:

1) Telecommunications operations, which includes the provision of voice, data, image, radio and television transmission, public exchange and private line teletypewriter and other telecommunications services, including directory operations;

2) Telecommunications equipment manufacturing, which involves the design, development, manufacture and marketing of central office switching equipment, integrated business systems and terminals, transmission equipment, cable and outside plant products, and other telecommunications products and services; and

3) Real estate operations, which involves the acquisition of land or other properties for resale or future development; and the development, for retention as income producing or for sale, of commercial and residential properties.

Other operations include international consulting services; printing, packaging and publishing; and other fields.

The following table sets forth revenues, net revenues and supplementary data for each of the corporation's business segments for the years ended December 31:

	1987	1986	1985
		millions of dollars	
By segment			
Revenues			
Telecommunications operations	**$ 6,763**	**$ 6,541**	**$ 6,032**
Telecommunications equipment manufacturing	6,390(a)	6,036(a)	5,766(a)
Intersegment revenues	51	47	52
	6,441	**6,083**	**5,818**
Real estate operations	**404**	**292**	**408**
Other operations	1,092	1,063	1,051
Intersegment revenues	107	86	68
	1,199	**1,149**	**1,119**
Elimination of intersegment revenues	**(158)**	**(133)**	**(120)**
Total revenues	**$14,649**	**$13,932**	**$13,257**
Total net revenues			
Telecommunications operations	$ 1,763	$ 1,839	$ 1,721
Telecommunications equipment manufacturing	602	577	581
Real estate operations	45	10	5
Other operations	162	197	187
	$ 2,572	**$ 2,623**	**$ 2,494**

20. INDUSTRY SEGMENTS INFORMATION (continued)

	1987	1986	1985
		millions of dollars	
By segment			
Identifiable assets			
Telecommunications operations	$13,830	$12,704	$11,882
Telecommunications equipment manufacturing	3,849	3,926	3,867
Real estate operations	3,025	2,866	1,330
Other operations	1,094	1,078	949
Eliminations	(304)	(355)	(361)
	21,494	20,219	17,667
Investments	3,577	2,190	1,802
General corporate assets	954(b)	1,305(b)	1,114(b)
Total assets as at December 31	$26,025	**$23,714**	**$20,583**
Depreciation			
Telecommunications operations	$ 1,105	$ 1,027	$ 997
Telecommunications equipment manufacturing	351	343	279
Real estate operations	3	3	2
Other operations and general corporate	71	38	34
Total depreciation	$ 1,530	**$ 1,411**	**$ 1,312**
Gross capital expenditures			
Telecommunications operations	$ 2,090	$ 1,728	$ 1,480
Telecommunications equipment manufacturing	554	422	624
Real estate operations	523	543	260
Other operations and general corporate	142	76	63
Total capital expenditures	$ 3,309	**$ 2,769**	**$ 2,427**

The following table sets forth information by geographic area for the years ended December 31:

	1987	1986	1985
		millions of dollars	
By geographic area			
Total revenues			
Canada			
Customers (c)	$ 9,485	$ 8,768	$ 8,192
Transfers between geographic areas	683	636	795
	10,168	**9,404**	**8,987**
U.S.A.			
Customers (c)	4,508	4,476	4,392
Transfers between geographic areas	141	150	124
	4,649	**4,626**	**4,516**
Other			
Customers (c)	656	688	673
Transfers between geographic areas	56	46	52
	712	**734**	**725**
Elimination of transfers between geographic areas	(880)	**(832)**	**(971)**
Total revenues	$14,649	**$13,932**	**$13,257**

20. INDUSTRY SEGMENTS INFORMATION (continued)

	1987	1986	1985
		millions of dollars	
By geographic area (c)			
Total net revenues before research and development expenses			
Canada	$ 2,633	$ 2,551	$ 2,290
U.S.A.	1,064	977	1,021
Other	106	167	152
	3,803	3,695	3,463
Research and development expenses	(925)	(788)	(707)
General corporate expenses	(306)	(284)	(262)
Other income (expense)	(332)	(416)	(361)
Income before income taxes and minority interest	**$ 2,240**	**$ 2,207**	**$ 2,133**
Identifiable assets			
Canada	$16,730	$15,326	$14,711
U.S.A.	5,166	5,130	3,746
Other	324	539	627
Eliminations	(726)	(776)	(1,417)
	21,494	20,219	17,667
Investments	3,577	2,190	1,802
General corporate assets	954(b)	1,305(b)	1,114(b)
Total assets as at December 31	**$26,025**	**$23,714**	**$20,583**

(a) Telecommunications equipment manufacturing includes revenues of $1,537 million (1986 — $1,257 million, 1985 — $1,086 million) from Bell Canada and other telephone subsidiary and associated companies of BCE. These revenues are not eliminated on consolidation. Telecommunications equipment manufacturing revenues of Northern Telecom Limited from Bell Canada are at sale prices and terms as low as those offered to the most favoured customers of Northern Telecom Limited for like materials and services under comparable conditions.

(b) General corporate assets are principally cash, temporary cash investments and deferred unrealized foreign currency losses.

(c) The point of origin (the location of the selling organization) of revenues and the location of the assets determine the geographic area.

21. REGULATORY DECISION

On October 14, 1986, the Canadian Radio-television and Telecommunications Commission ("CRTC") rendered its decision on Bell Canada's revenue requirements for 1987, 1986 and 1985. As part of this decision, the CRTC established rates of return on common equity to be applied retroactively for 1986 and 1985. The CRTC also directed that certain items which had been expensed in the periods since January 1, 1985, should be capitalized; as a result, operating expenses would have been reduced by approximately $60 million and $5 million for 1986 and 1985, respectively. Taking into account these determinations, the CRTC concluded that Bell Canada had earned excess revenues of $143 million and $63 million for 1986 and 1985, respectively, and directed Bell Canada to provide most of its subscribers with a one-time credit totalling $206 million by January 31, 1987. This part of the CRTC decision was appealed by Bell Canada to the Federal Court of Appeal.

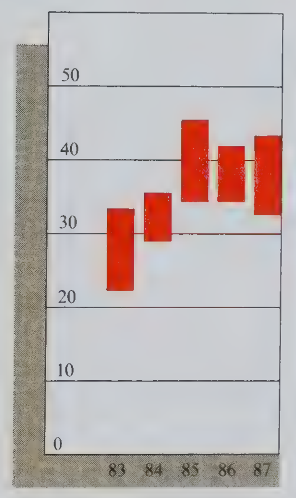
On July 10, 1987, the Federal Court of Appeal allowed Bell Canada's appeal and decided that the CRTC had exceeded its jurisdiction in directing Bell Canada to give a one-time credit of $206 million to its subscribers. On December 3, 1987, the Supreme Court of Canada granted the CRTC's application for leave to appeal the Federal Court of Appeal's decision; no date has been set for a hearing on the CRTC's appeal. Management, supported by the opinion of legal counsel, believes that the Federal Court of Appeal's decision is likely to be sustained.

The effect of the decision relating to 1985 and 1986, as set out in this note, has not been reflected in the financial statements, and would be to reduce net income by approximately $71 million ($29 million would relate to 1985 and $42 million to 1986).

Price Ranges of Common Shares

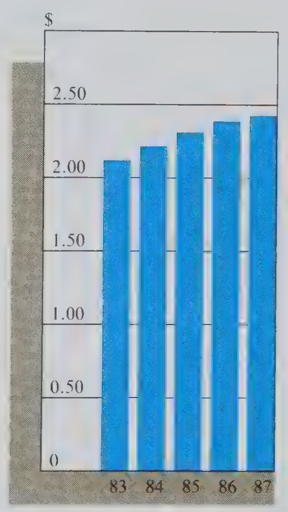
	1987		1986	
	High	**Low**	High	Low
Montreal and Toronto				
1st quarter	**$43⅝**	**$36⅞**	$42	$36¾
2nd quarter	**43⅛**	**40⅜**	41	37⅜
3rd quarter	**43**	**38⅛**	39½	37⅛
4th quarter	**39½**	**33½**	38⅛	34¼
NYSE consolidated tape (US $)				
1st quarter	**$33⅜**	**$26⅞**	$30	$25⅝
2nd quarter	**33**	**29⅞**	29½	26⅞
3rd quarter	**32⅝**	**29**	28½	26¾
4th quarter	**30⅛**	**23½**	27½	24⅞

Market prices per common share
(Canadian dollars)



High
Low

Dividend growth



Dividends
Quarterly dividends of $0.60 per common share were paid in 1987 ($0.59 in 1986).

On November 25, 1987, an increase in the dividend on common shares was declared. The final 1987 quarterly dividend, which was paid on January 15, 1988, was raised to $0.61. The indicated annual rate is now $2.44, an increase of $0.04 over the previous annual rate.

Number of Shareholders
At December 31, 1987, there were 318,675 registered holders of common shares.

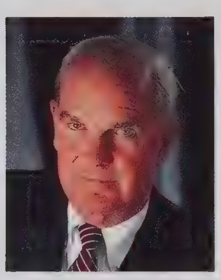
Selected Financial and Other Data (Consolidated)

	1987	1986	1985	1984
Income statement data (millions of dollars)				
Revenues				
Local service	**$ 2,489**	$ 2,380	$ 2,354	$ 2,295
Long distance service	**3,408**	3,355	3,040	2,739
Directory advertising and miscellaneous — net	**866**	806	638	507
Total telecommunications operations	**6,763**	6,541	6,032	5,541
Telecommunications equipment manufacturing	**6,390**	6,036	5,766	4,321
Real estate operations	**404**	292	408	1
Other operations	**1,092**	1,063	1,051	715
Total revenues	**14,649**	**13,932**	**13,257**	**10,578**
Income before extraordinary items	**1,087**	1,024	1,051	940
Net income	**1,087**	1,024	1,051	940
Balance sheet data (millions of dollars)				
* Total assets	**$26,025**	$23,714	$20,583	$17,486
* Common equity	**9,024**	8,366	7,309	6,317
* Preferred shares (redeemable)	**243**	257	313	378
* Minority interest	**2,744**	2,339	1,893	1,349
* Long-term debt (including current portion)	**7,845**	7,075	6,149	4,761
Gross capital expenditures	**3,309**	2,769	2,427	1,956
Common share data				
Earnings per common share				
before extraordinary items	**$ 3.91**	$ 3.83	$ 4.23	$ 4.03
after extraordinary items	**$ 3.91**	$ 3.83	$ 4.23	$ 4.03
Assuming full dilution				
before extraordinary items	**$ 3.85**	$ 3.77	$ 4.13	$ 3.92
after extraordinary items	**$ 3.85**	$ 3.77	$ 4.13	$ 3.92
Dividends declared per common share	**$ 2.41**	$ 2.37	$ 2.30	$2.205
* Equity per common share	**$32.95**	$31.54	$29.71	$27.06
Return on common equity	**12.3%**	12.5%	15.0%	15.7%
Other statistics				
* Telephones in service (thousands)	**9,525**	9,543	9,618	9,769
* Network access services (thousands)	**8,117**	7,746	7,424	7,145
Long distance messages (millions)	**1,254**	1,083	978	895
* Number of employees (thousands)	**117**	110	108	108

* at December 31

1983	1982	1981	1980	1979	1978
$ 2,224	$ 2,136	$ 1,918	$ 1,626	$ 1,450	$ 1,313
2,481	2,277	1,972	1,625	1,414	1,223
371	278	250	205	175	153
5,076	4,691	4,140	3,456	3,039	2,689
3,248	2,986	2,531	2,019	1,864	1,470
—	—	—	—	—	—
550	734	719	562	362	215
8,874	**8,411**	**7,390**	**6,037**	**5,265**	**4,374**
745	612	547	363	433	366
830	615	556	273	433	391
$14,940	$13,424	$12,451	$11,463	$10,382	$ 9,218
5,307	4,257	3,859	3,471	3,345	2,847
423	522	362	454	329	405
800	528	447	398	470	301
4,527	4,801	4,729	4,406	3,816	3,537
1,597	1,760	1,714	1,598	1,351	1,184
$ 3.46	$ 3.05	$ 2.95	$ 1.99	$ 2.63	$ 2.45
$ 3.88	$ 3.07	$ 3.00	$ 1.44	$ 2.63	$ 2.63
$ 3.37	$ 2.97	$ 2.86	$ 1.97	$ 2.55	$ 2.33
$ 3.76	$ 2.99	$ 2.91	$ 1.44	$ 2.55	$ 2.49
$2.105	$ 1.99	$ 1.84	$ 1.68	$ 1.55	$ 1.43
$24.68	$22.68	$21.74	$20.75	$21.11	$20.17
14.7%	13.7%	14.0%	9.5%	12.7%	12.6%
9,780	9,888	10,063	9,988	9,642	9,328
6,887	6,722	6,650	6,467	6,227	6,053
833	791	793	741	687	643
101	98	102	97	94	90

Board of Directors



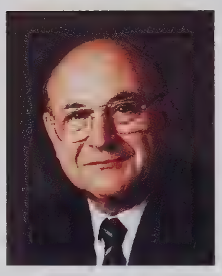
Ralph M. Barford
Toronto, Ontario
President
Valleydene Corporation
Limited
(private investment company)

Marcel Bélanger, O.C., F.C.A.
Quebec, Quebec
President
Gagnon et Bélanger Inc.
(management consultants)

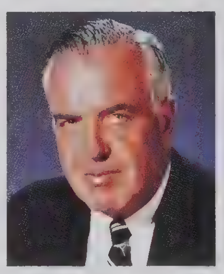
Warren Chippindale, F.C.A.
Westmount, Quebec
(company director)

J.V. Raymond Cyr
Montreal, Quebec
President
BCE Inc.
and Chairman of the Board
Bell Canada

C. William Daniel, O.C.
Willowdale, Ontario
(company director/consultant)



A. Jean de Grandpré, C.C., Q.C.
Montreal, Quebec
Chairman of the Board
and Chief Executive Officer
BCE Inc.



Edmund B. Fitzgerald
Nashville, Tennessee, U.S.A.
Chairman of the Board
and Chief Executive Officer
Northern Telecom Limited

Rowland C. Frazee, O.C.
Town of Mount Royal, Quebec
(company director)

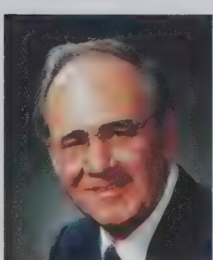
J. Peter Gordon, O.C.
Mississauga, Ontario
(company director)

H. Clifford Hatch
Windsor, Ontario
(company director)

Paul H. Leman, O.C.
Outremont, Quebec
(company director)

Gerald J. Maier
Calgary, Alberta
President and Chief
Executive Officer
TransCanada PipeLines
Limited

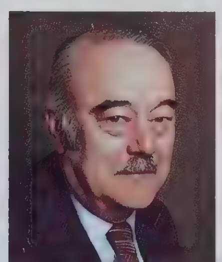
Helen L. Margison
Toronto, Ontario
(company director)



E. Neil McKelvey, O.C., Q.C.
Saint John, New Brunswick
Partner
McKelvey, Macaulay,
Machum (law firm)

John H. Moore, F.C.A.
London, Ontario
(company director)

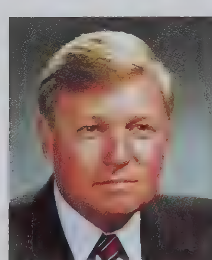
Gérard Plourde, O.C.
Montreal, Quebec
(company director)



Lucien G. Rolland, O.C.
Montreal, Quebec
Chairman of the Board
and Chief Executive Officer
Rolland inc.
(manufacturer and distributor
of fine papers)

Alastair H. Ross
Calgary, Alberta
President
Allaro Resources Ltd.
(private oil and gas
exploration company)

Louise B. Vaillancourt, C.M.
Outremont, Quebec
President
Fondation Armand-Frappier
(non-profit research funding
organization)



Lynton R. Wilson
Oakville, Ontario
President and Chief
Executive Officer
Redpath Industries Limited
(sugar refiners and manufacturers
of automotive, industrial
and construction products)

Committees of the Board

Audit committee
M. Bélanger — chairman
W. Chippindale
P.H. Leman
E.N. McKelvey
J.H. Moore
G. Plourde
L.B. Vaillancourt

Investment committee
A.J. de Grandpré — chairman
M. Bélanger
J.V.R. Cyr
C.W. Daniel
H.L. Margison
J.H. Moore
A.H. Ross
L.R. Wilson

Pension fund policy committee
J.P. Gordon — chairman
R.M. Barford
J.V.R. Cyr
E.B. Fitzgerald
E.N. McKelvey
G. Plourde

Management resources and compensation committee
J.P. Gordon — chairman
R.C. Frazee
H.C. Hatch
L.G. Rolland
L.R. Wilson

Corporate Officers

A. Jean de Grandpré
Chairman and
Chief Executive Officer

J.V. Raymond Cyr
President

Jean C. Monty
Executive Vice-President

John E. Sinclair
Executive Vice-President
Corporate

J. Stuart Spalding
Executive Vice-President
Finance

Graham E. Bagnall
Vice-President and
Treasurer

Josef J. Fridman
Vice-President and
General Counsel

Guy Houle
Vice-President and
Corporate Secretary

Donald R. Newman
Vice-President and
Comptroller

G.E. Bagnall J.S. Spalding D.R. Newman

J.C. Monty J.E. Sinclair J.J. Fridman G. Houle

Departmental Executive

Ivan Berggrun
Assistant Comptroller
Research, Budget and
Results

Stephen J. Brady
Assistant Treasurer
Shareholder Services

Shaul I. Ezer
Assistant General Counsel
(Ontario)

Simon Jegher
Assistant Treasurer
Financing

David H. Orr
Assistant Vice-President
Corporate Relations

Marc J. Ryan
Assistant General Counsel

Michel E. Saint-Cyr
Assistant Vice-President
Finance (Real Estate)

Nichol A. Smith
Assistant Vice-President
Taxation

Reynold Tremblay
Assistant Comptroller
External Reporting

Leonard J. Vanderheyden
Assistant Vice-President
Human Resources and
Administration

Shareholder Statistics

As at December 31	1987	1986	1985	1984	1983
Common shareholders by holdings					
1-99 shares	**138,637**	144,805	139,093	130,759	122,765
100-999 shares	**153,438**	166,161	165,984	161,681	153,232
1,000 shares and over	**26,600**	27,562	27,363	28,797	28,435
Total	**318,675**	338,528	332,440	321,237	304,432
Average number of common shares per registered holder	**859**	783	740	726	706
Total number of shareholders (including preferred)	**327,226**	348,441	344,541	335,412	321,140
Common shareholders by location					
Canada	**311,847**	331,623	325,877	314,804	298,439
Other	**6,828**	6,905	6,563	6,433	5,993
Total	**318,675**	338,528	332,440	321,237	304,432
Common shares by location					
Canada*	**251,986,759**	250,695,266	231,332,364	220,691,475	201,913,798
Other	**21,881,716**	14,580,430	14,714,250	12,790,908	13,123,984
Total	**273,868,475**	265,275,696	246,046,614	233,482,383	215,037,782

*Held by shareholders registered as residents of Canada

Canadian Taxes on Foreign Investors

Income Taxes
Dividends (including stock dividends) on BCE shares, paid or credited to non-residents of Canada, are subject to withholding tax at 25 per cent, unless reduced by treaty.

Under the United States-Canada Income Tax Convention, a withholding tax of 15 per cent applies to BCE dividends (including stock dividends) paid or credited to individuals residing in the United States, or corporations organized under the laws of the United States, that do not have a "permanent establishment" or a "fixed base" in Canada.

Gains on disposals of BCE shares by a non-resident of Canada are generally not subject to Canadian income tax, unless realized by the holder in connection with a business (including an "adventure in the nature of trade") carried on in Canada.

Estate and Succession Duties
There are no estate taxes or succession duties imposed by Canada or by any province of Canada.

Shareholder Dividend Reinvestment and Stock Purchase Plan

Shareholders wishing to acquire additional common shares of BCE Inc. can take advantage of the Shareholder Dividend Reinvestment and Stock Purchase Plan (DRP).

DRP provides a convenient method for eligible holders of BCE common shares to reinvest all or a portion of their common share cash dividends in new common shares of BCE.

Participants in DRP may also invest monthly optional cash payments in new common shares of BCE as follows:

1) up to $20,000 cash, with a cumulative limit of $20,000 for each 12-month period ending October 15, and
2) up to $20,000 of the aggregate of dividends on BCE preferred shares and interest on Bell Canada bonds and debentures, with a cumulative limit of $20,000 for each 12-month period ending October 15.

Shareholders participating in DRP pay no brokerage commissions or service charges on the acquisition of these shares, and all administration costs of the plan are borne by BCE.

Additional information can be obtained by calling:

(514) 394-7111

Shareholder Inquiries

Mailing Address

BCE Inc.
Shareholder Services
P.O. Box 3500
Tour de la Bourse
Montreal, Quebec H4Z 1L3

Telephone

Montreal (514) 394-7111
Toronto (416) 581-3380

Sur demande, le vice-président et secrétaire de la Société vous fera volontiers parvenir un exemplaire français du rapport annuel.

Investor Information

Transfer Offices for Stock

Canada:

BCE Shareholder Services

800 Square Victoria
Montreal;

483 Bay St.
Toronto

The Royal Trust Company

St. John's, Nfld.; Halifax;
Charlottetown;
Saint John, N.B.; Winnipeg;
Regina; Calgary; Edmonton;
Vancouver

Outside Canada — Common shares only:

American Transtech, Inc.

New York, N.Y.

Royal Trust Bank

London, England

Registrar for Stock

Canada:

BCE Shareholder Services

Montreal; Toronto

Montreal Trust Company

St. John's, Nfld.; Halifax;
Charlottetown;
Saint John, N.B.; Winnipeg;
Regina; Calgary; Edmonton;
Vancouver

Outside Canada — Common shares only:

American Transtech, Inc.

New York, N.Y.

The Royal Bank of Scotland plc.

London, England

Listing of Stock

Canada:

The Montreal Exchange
The Toronto Stock Exchange
Vancouver Stock Exchange

Outside Canada — Common shares only:

Belgium
Brussels Stock Exchange

France
Paris Stock Exchange

Germany
Frankfurt am Main, Düsseldorf Stock Exchanges

Japan
Tokyo Stock Exchange

Switzerland
Zürich, Basel, Geneva Stock Exchanges

The Netherlands
Amsterdam Stock Exchange

United Kingdom
The Stock Exchange

United States
New York Stock Exchange

The annual reports to shareholders of the public companies of the group may be obtained from those companies, or by request to the Vice-President and Corporate Secretary of BCE Inc.

Form 10-K
The Annual Report on Form 10-K is available, from the date of its filing with the Securities and Exchange Commission in the United States, by writing to:

The Vice-President and
Corporate Secretary
BCE Inc.
2000 McGill College Avenue
Suite 2100
Montreal, Quebec H3A 3H7

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